

FINANCIAL STATEMENTS

TOWN OF PONCE INLET, FLORIDA

For the Year Ended September 30, 2013
With Independent Auditors' Reports

MAYOR

Honorable Gary Smith

VICE MAYOR

Mary Hoss

TOWN COUNCIL MEMBERS

Tami Lewis
Bill Milano
Joe Perrone

TOWN MANAGER

Jeaneen C. Witt, CMC

FINANCE MANAGER

Emily C. Kroeger

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September 30, 2013
TOWN OF PONCE INLET, FLORIDA

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FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING FIVE PARTS:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

***COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES***

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INDEPENDENT AUDITORS' REPORT

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the "Town") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Ponce Inlet, Florida, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Timucuan Oaks Special Revenue Fund, and Public Land Acquisition and Facility Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Uncertainties Regarding the Future Outcome of Litigation

As discussed in Note 17 to the financial statements, the Town is the defendant in a lawsuit alleging unlawful land use decisions made by the Town Council. The Town has filed an appeal in response to the of preliminary decision counteraction, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the lawsuit cannot presently be determined, but management is of the opinion that it will not have a material impact on the Town's financial position. At this stage, it is impracticable to render an opinion about whether the likelihood of an unfavorable outcome is either probable or remote. Accordingly, no provision for any liability that may result has been made in the financial statements. Nevertheless, due to uncertainties with the lawsuit, it is at least reasonably possible that management's view of the outcome will change in the near term.

Other Matters

Required Supplementary Information

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

To the Honorable Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida
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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of the Town of Ponce Inlet, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Ponce Inlet, Florida's internal control over financial reporting and compliance.

Brent Milliken & Co., P.A.

February 28, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Town of Ponce Inlet, Florida, (hereinafter referred to as the "Town"), we offer the readers of these basic financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year that ended on September 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this information.

Financial Highlights

- The Town's overall combined assets totaled \$19,011,971 at the close of the 2013 fiscal year compared to \$19,398,155 last year. Total assets exceeded liabilities by \$13,209,051 (*combined net position*) compared with \$13,283,671 one year earlier. The unrestricted component of the Town's combined net position totaled \$3,105,295 at year end, compared with \$3,341,664 one year earlier. This amount represents the unrestricted amount that may be used to meet the Town's ongoing obligations to citizens and creditors.
- Net position of the Town's governmental activities totaled \$11,257,935, an increase of \$77,159 over last year's reported \$11,180,776, or 0.7%. Net position of its business-type activities totaled \$1,951,116, a decrease of \$151,779 under last year's \$2,102,895, or -7.2%.
- During 2013, the Town incurred governmental expenses of \$5,121,930, which were \$77,159 less than the \$5,199,089 generated in revenues (taxes and all other governmental sources) and transfers for providing its various governmental activities and programs. Included in this amount is \$135,000 representing net interfund transfers from the Town's business-type funds for partial reimbursement of administrative costs. The 2013 increase in net position of \$77,159 was \$1,095,557 greater than the \$1,018,398 decrease reported in the net position of the governmental operations in 2012.
- The Town's business-type activities produced a combined operating loss (before contributions and operating transfers) of \$24,085 during 2013 based exclusively on consumptive water/sewer/solid waste utility sales and other revenues of \$2,302,500 (\$2,234,837 in 2012). After recognition of capital contributions of \$7,306 and net interfund transfers out of \$135,000, the decrease in combined net position totaled \$151,779 in 2013, compared to a decrease of \$157,477 in 2012.
- Combined fund balances in the General Fund increased by \$134,182 in 2013 and totaled \$2,307,266, compared to a significant drop in 2012 of \$1,389,481 resulting in a total of \$2,173,084. The Town's cost of legal services, most of which was incurred to defend the Town in a civil suit, totaled \$733,818 in 2013, compared to \$1,477,556 in 2012 and represent approximately 16% and 28%, respectively, of total General Fund expenditures. Amounts committed by the Town Council for a stabilization reserve (\$1,171,935) and other unassigned fund balance (\$757,803) totaled \$1,929,738 at the end of 2013. This amount remained relatively stable in 2013 and was \$23,847 greater than the \$1,905,891 reported one year earlier. These amounts represent approximately 43% (155 days) and 36% (133 days) of reported General Fund expenditures for 2013 and 2012, respectively.
- The Town's total long-term debt represented by loan obligations totaled \$4,774,624 at the end of 2013, compared to \$5,078,678 at the end of 2012. In addition to its long-term loans, the Town has \$291,988 and \$281,017 in compensated absences liabilities outstanding at the end of 2013 and 2012, respectively, (e.g., accrued sick and personal leave). Principal reductions on the Town's long-term debt in 2013 totaled \$304,054, compared to \$293,222 one year earlier.

Overview of the Financial Statements

The Town's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including budgetary comparisons and fiduciary fund data.

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the Town's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the Town. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Town's overall financial status, including its governmental activities and its business-type activities. These statements report information about the Town using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Town's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide financial statements. The governmental funds' statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the Town's water, sewer and refuse utility systems.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Town's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the Town's governmental fund activities.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The basic financial statements of the Town include a statement of net position and a statement of activities, which are described as follows:

- A statement of net position presents information on all of the Town's assets and liabilities at the end of its fiscal year, 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 Town's financial position is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial condition.
- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the Town's net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes; earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*government 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 Town include general government services, public safety (police, fire and building inspection), transportation and streets (public works), stormwater management and recreation and leisure services. The business-type activities of the Town include its water, sewer and refuse utility systems.

The government-wide financial statements include not only the Town of Ponce Inlet itself (known as the primary government), but also the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the "Lighthouse Association"), for which the Town is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Complete financial statements of the Lighthouse Association component unit can be obtained directly from the Association's Administrative Office at 4931 South Peninsula Drive, Ponce Inlet, FL 32127.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds - not the Town as a whole. 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 Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary 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. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating the government'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 are supplemented with a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains nine 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, Timucuan Oaks Special Revenue Fund, Public Land Acquisition and Facility Special Revenue Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other five 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 and individual fund budgetary statements in the other supplementary information section of this report.

Proprietary Funds. Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The Town's three enterprise funds (water, sewer and refuse utility systems, all of which are considered major funds of the Town) are aggregated in the business-type activities presented in the government-wide statements. Since the accounting for these operations is similar to that provided in the government-wide financial statements, the fund financial statements provide limited supplemental information in more detail, such as cash flows data.

Financial Analysis of the Town as a Whole

Net position. As noted previously, net position may serve over time as a useful indicator of a government's financial position. This year, the Town's combined total assets exceeded liabilities (net position) by \$13,209,051 at the end of 2013 (compared to \$13,283,671 at the end of 2012), which is summarized as follows:

Net Assets						
September 30, 2013 and 2012						
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current and other assets.....	\$ 3,332,192	3,458,884	866,381	965,834	4,198,573	4,424,718
Restricted assets.....	-	-	70,087	62,215	70,087	62,215
Capital assets, net.....	<u>13,217,971</u>	<u>13,331,447</u>	<u>1,525,340</u>	<u>1,579,775</u>	<u>14,743,311</u>	<u>14,911,222</u>
Total assets.....	<u>16,550,163</u>	<u>16,790,331</u>	<u>2,461,808</u>	<u>2,607,824</u>	<u>19,011,971</u>	<u>19,398,155</u>
Liabilities:						
Long-term debt.....	4,774,624	5,078,678	-	-	4,774,624	5,078,678
Other liabilities.....	<u>517,604</u>	<u>530,877</u>	<u>510,692</u>	<u>504,929</u>	<u>1,028,296</u>	<u>1,035,806</u>
Total liabilities.....	<u>5,292,228</u>	<u>5,609,555</u>	<u>510,692</u>	<u>504,929</u>	<u>5,802,920</u>	<u>6,114,484</u>
Net Assets:						
Invested in capital assets, net of related debt.....	8,443,347	8,252,769	1,525,340	1,579,775	9,968,687	9,832,544
Restricted.....	68,291	49,053	66,778	60,410	135,069	109,463
Unrestricted.....	<u>2,746,297</u>	<u>2,878,954</u>	<u>358,998</u>	<u>462,710</u>	<u>3,105,295</u>	<u>3,341,664</u>
Total net assets.....	<u>\$ 11,257,935</u>	<u>11,180,776</u>	<u>1,951,116</u>	<u>2,102,895</u>	<u>13,209,051</u>	<u>13,283,671</u>

One of the most significant components of the Town's net position (75%) is its investment in capital assets (land, buildings, building improvements, and equipment), less any related debt used to acquire or construct those assets, which is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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.

The Town also has a small investment (1%) in other restricted net position, consisting of unspent local option fuel taxes (\$39,620), judgments and fines restricted for police education (\$11,908), court ordered confiscations and forfeitures restricted for police investigations (\$8,205), amounts restricted for debt service payments (\$8,558), and utility impact fees restricted for utility expansion (\$66,778). Consequently, the remaining 24% of unrestricted net position represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, which totaled \$3,105,295 at the end of 2013 and \$3,341,664 at the end of 2012.

Changes in Net position. While the statement of net position shows a snapshot of the Town's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and sources of those changes. During 2013, the Town's total revenues increased by \$513,028 (or 7.5%) and totaled \$7,373,895, compared to \$6,860,867 the prior year. This year's increase was primarily due to the anticipated increase in ad valorem taxes, which increased by \$505,808 in 2013.

During 2013, approximately 47% of the Town's total revenue was derived from property taxes, while 54 cents of every dollar raised came from some form of tax. Another 40% was produced from fees charged for services, while the substantial portion of the remainder is from capital/operating grants and contributions, intergovernmental revenues and other sources (6%). The total costs of providing all of the Town's routine programs and services decreased by \$588,227 in 2013, which represents a decrease of approximately 7.3% overall. Amounts totaled \$7,448,515 for 2013, compared to \$8,036,742 in the prior year. The majority of this decrease was from a reduction in legal fees in 2013, which were up substantially in 2012. Amounts incurred in 2013 totaled \$733,818, compared to \$1,477,556 in 2012, the material portion of which was incurred to defend the Town in an ongoing civil suit.

Overall, the Town's revenues increased by about 7.5% compared to last year, while the Town's expenses for its combined governmental and business activities decreased by about 7.3% compared to the prior year. The Town's combined net position remained relatively stable in 2013 with a decrease of \$74,620, compared to a decreased \$1,175,875 in 2012. The following is a summary of changes in net position for the fiscal year:

Changes in Net Assets

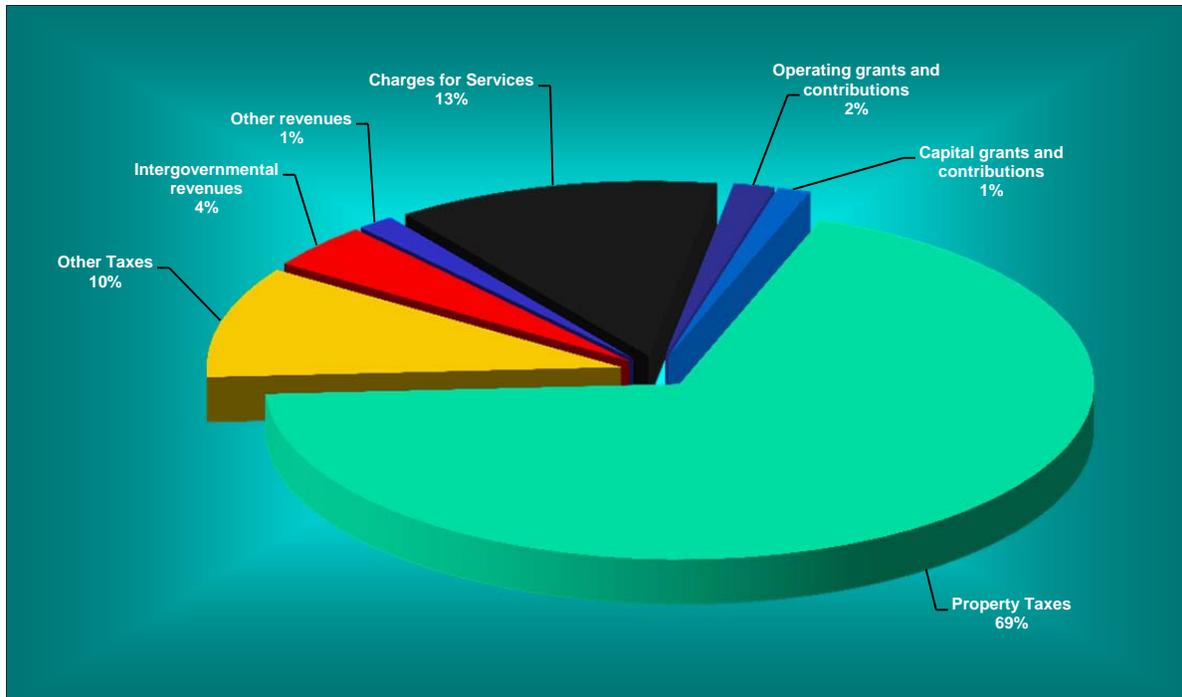
For the Years Ended September 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Current charges for services.....	\$ 640,704	540,648	2,300,142	2,226,863	2,940,846	2,767,511
Operating grants/contributions.....	81,941	82,686	-	-	81,941	82,686
Capital grants/contributions.....	65,135	234,905	7,306	2,104	72,441	237,009
General revenues:						
Property taxes.....	3,470,684	2,964,876	-	-	3,470,684	2,964,876
Other taxes.....	521,067	493,978	-	-	521,067	493,978
Intergovernmental.....	209,848	200,158	-	-	209,848	200,158
Other revenues.....	74,710	106,675	2,358	7,974	77,068	114,649
Total revenues.....	<u>5,064,089</u>	<u>4,623,926</u>	<u>2,309,806</u>	<u>2,236,941</u>	<u>7,373,895</u>	<u>6,860,867</u>
Expenses:						
General government.....	1,652,129	2,105,028	-	-	1,652,129	2,105,028
Public safety.....	2,612,370	2,512,340	-	-	2,612,370	2,512,340
Physical environment.....	121,973	356,132	-	-	121,973	356,132
Transportation.....	387,863	363,187	-	-	387,863	363,187
Culture/recreation.....	168,324	160,399	-	-	168,324	160,399
Interest expense.....	179,271	189,873	-	-	179,271	189,873
Water system.....	-	-	1,298,142	1,311,171	1,298,142	1,311,171
Sewer system.....	-	-	887,330	894,643	887,330	894,643
Refuse/solid waste system.....	-	-	141,113	143,969	141,113	143,969
Total expenses.....	<u>5,121,930</u>	<u>5,686,959</u>	<u>2,326,585</u>	<u>2,349,783</u>	<u>7,448,515</u>	<u>8,036,742</u>
Transfers in (out).....	<u>135,000</u>	<u>44,635</u>	<u>(135,000)</u>	<u>(44,635)</u>	-	-
Increase in net assets.....	77,159	(1,018,398)	(151,779)	(157,477)	(74,620)	(1,175,875)
Net assets, beginning of year.....	<u>11,180,776</u>	<u>12,199,174</u>	<u>2,102,895</u>	<u>2,260,372</u>	<u>13,283,671</u>	<u>14,459,546</u>
Net assets, end of year.....	<u>\$ 11,257,935</u>	<u>11,180,776</u>	<u>1,951,116</u>	<u>2,102,895</u>	<u>13,209,051</u>	<u>13,283,671</u>

Governmental Activities

Revenues for the Town's governmental activities were approximately 9.5% greater than the amount of revenue earned in the prior fiscal year, the majority of which was attributed to substantially increased collections of ad valorem taxes in 2013 which were up \$505,808 over the prior year. Overall, the Town's governmental revenues totaled \$5,064,089 in 2013, which represents an increase of \$440,163 over last year's reported revenues of \$4,623,926. The following is a summary of the Town's governmental revenues by source:

Revenues by Source - Governmental Activities

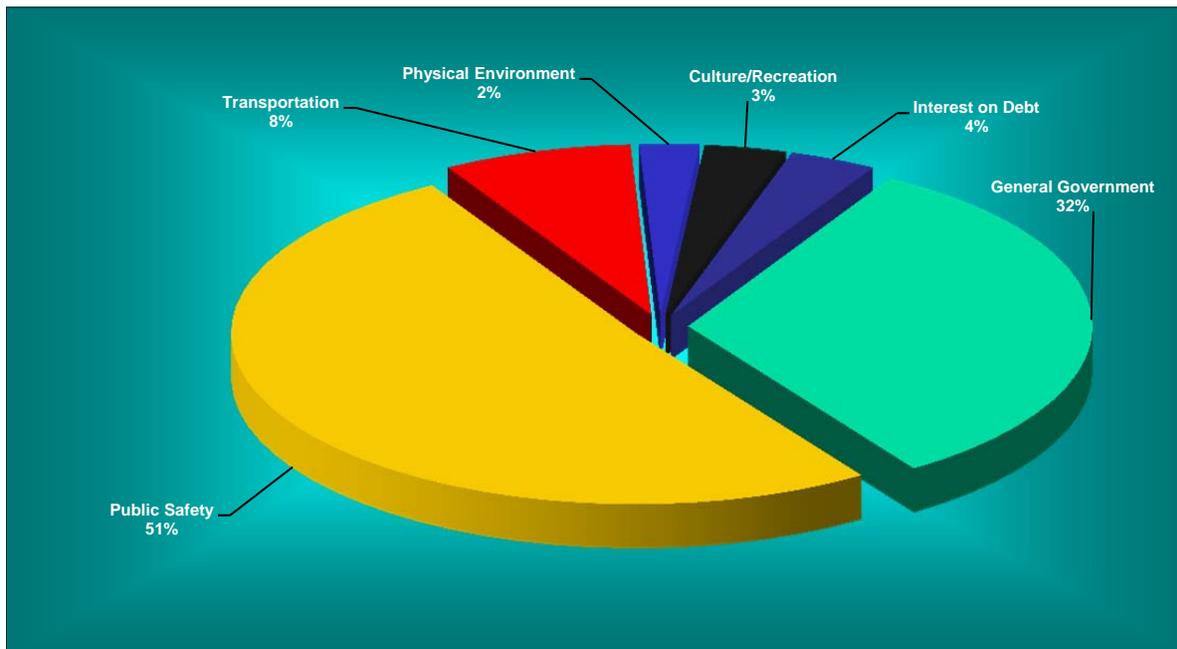


Overall, the Town experienced a significant decrease in expenses for the Town's combined governmental activities. Governmental fund expenses decreased by \$565,029 in 2013, or 9.9%, and totaled \$5,121,930 for the year ended September 30, 2013, compared to a total of \$5,686,959 incurred during the prior year. The largest decrease experienced in 2013 was in legal expenses incurred to defend the Town in a civil suit. Legal department expenses decreased by \$743,738 in 2013 and totaled \$733,818, compared to a total of \$1,477,556 incurred in 2012. It is anticipated that these expenses will continue to be incurred in FY 2014 in defending the Town in an ongoing legal dispute.

The Town's public safety (police, fire and inspection) function expenses are the most significant component of cost. During 2013 public safety costs totaled \$2,612,370, or 51% (compared to 44% last year), of the Town's total governmental expenses. The Town's general government function expenses are the next largest segment and totaled \$1,652,129 for the year, or 32% (compared to 37% last year), of the Town's total operating expenses. The Town's stormwater, transportation and recreation functions combined totaled \$678,160 for the year, or 13% (compared to 15% last year), of the total governmental expense. Interest expense on all of the Town's general long-term debt obligations totaled \$179,271 for the year, or 4% (compared to 4% last year), of the total governmental expense.

The following is a summary of the Town's governmental expenses by function:

Expenses by Function - Governmental Activities



Business-type Activities

The major sources of operating revenues for the Town's business-type activities are charges for services attributed to its water, sewer and refuse utilities. Potable water is purchased in bulk from the City of Port Orange and sold to the Town's customers under rates established by the Town. Sewer collection services are billed by the Town on behalf of the City of Port Orange under rates established by Port Orange, all of which is remitted to Port Orange monthly. The Town collects an annual administrative fee for billing, collecting, and remitting all sewer charges and payments. The Town also bills utility connection and capacity fees on behalf of Port Orange under rates established by Port Orange, which are collected and subsequently remitted to Port Orange. Solid waste and recycling fees are charged to the Town's customers under rates established by the Town. An independent contractor is engaged by the Town to perform all collection and disposal activities.

Combined utility sales totaled \$2,300,142 in 2013, compared to \$2,226,863 in 2012. The Town also collected water and sewer impact/connection fees (included in reported total sales for 2013) totaling \$12,334 and \$20,531, respectively, which were remitted to the City of Port Orange. In addition to these charges, the Town received \$7,306 in water impact fees and \$2,243 in miscellaneous revenues and investment earnings during the recent fiscal year.

Combined operating expenses of the Town's business-type activities totaled \$2,326,585 in 2013, compared to \$2,349,783 in 2012. Depreciation expense on utility fund assets included in this amount totaled \$124,556 and \$122,992 for the years ended in 2013 and 2012, respectively.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the Town completed the year, its governmental funds reported a combined fund balance of \$3,116,077, which was \$110,207 less than the \$3,226,284 reported at the close of 2012.

The general fund is the chief operating fund of the Town. At the end of 2013, the unassigned fund balance in the general fund totaled \$757,803, compared to \$833,989, one year earlier. Unassigned balances do not contain Town Council established stabilization (commitment) amounts of \$1,171,935 and \$1,071,902 for 2013 and 2012, respectively. Combined unassigned fund balances and stabilization amounts represent approximately 43% (19 weeks/155 days) of the Town's general fund spending for 2013, compared to 36% (19 weeks/133 days) in 2012. This reduction was significantly impacted by decreased legal fees incurred in 2013, compared to increased amounts incurred in 2012, to defend the Town in a civil suit.

The Public Land Acquisition and Facility special revenue fund was established in 2003 to separately account for the collection and disposition of the Town's franchise fee collections on solid waste and utility service taxes on providers of electricity and liquid propane in the Town (and pledged for debt service on the Town's Capital Improvement Revenue Note, Series 2005). These funds are restricted for the acquisition and improvement of real property in the Town. At the end of 2013, unreserved fund balance in this fund was \$643,622 compared to \$619,885 one year earlier. To better describe the activity of this fund in regard to the obligation of the aforementioned Revenue Note, Series 2005 (the Town Hall capital project), the Town continues to budget approximately \$328,000 per year in revenue towards loan payments so some of this fund's reserve each year is allocated in the budget to meet this obligation.

The Timucuan Oaks special revenue fund was established to separately account for the collection, matching and disposition of capital grant funds acquired to procure and develop park land within the Town. Amounts accumulated in the fund at the end of 2013 totaled \$92,396 (compared to \$370,850 one year earlier) and represent the Town's share of future costs anticipated to be expended on capital projects in FY 2014. The decrease in 2013 was due to the development of Town-owned properties with the construction of a boardwalk, gazebo and public dock facilities in the amount of \$276,096.

Fund balances in the remainder of the Town's non-major special revenue and capital projects funds increased by \$8,111 in 2013 and totaled \$64,235, compared to \$56,124 at the end of the prior year.

Proprietary Funds. The Town's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Utility Fund at the end of the year amounted to \$345,356. Unreserved equity in the Town's Sewer Utility Fund (which is operated on a pass-through basis in conjunction with an Agreement with the City of Port Orange, Florida), totaled \$7,072 at the end of the year, all of which will ultimately be transferred to the Town's General Fund. Unreserved fund equity in the Town's Refuse Utility Fund totaled \$6,570 at year end. Net operating transfers totaling \$135,000 were transferred to governmental funds during 2013 in the form of excess equity, reimbursements for capital acquisitions and operating transfers. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the Town's operating budget. These budget amendments fall into two categories:

- Amendments and supplemental appropriations were approved midway through the year to reflect the actual opening account balances (correcting estimated amounts in the budget adopted at the beginning of the year).
- Increases/decreases in line item budget appropriations to prevent budget overruns.

Actual earned revenues were \$40,280 greater than the final amounts anticipated to be received during the year in the Town's General Fund. Actual expenditures incurred were \$175,092 below the \$4.7 million amended budget appropriations provided in the 2013 operating budget. The Town's General Fund operated at a surplus, (\$134,182) with transfer activities included, and was not required to draw from existing fund balance and/or surplus reserves to meet spending obligations for the year.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2013, the Town had \$20.7 million invested in a broad range of capital assets, including land, buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule:

Capital Assets						
September 30, 2013 and 2012						
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and land rights	\$ 4,569,460	4,569,461	4,033	4,033	4,573,493	4,573,494
Buildings	5,411,804	5,374,312	-	-	5,411,804	5,374,312
Improvements other than buildings	5,026,966	4,744,170	3,150,069	3,168,838	8,177,035	7,913,008
Equipment and furniture	<u>2,339,505</u>	<u>2,420,228</u>	<u>151,901</u>	<u>138,366</u>	<u>2,491,406</u>	<u>2,558,594</u>
	17,347,735	17,108,171	3,306,003	3,311,237	20,653,738	20,419,408
Less: accumulated depreciation	<u>(4,129,764)</u>	<u>(3,782,204)</u>	<u>(1,780,663)</u>	<u>(1,731,462)</u>	<u>(5,910,427)</u>	<u>(5,513,666)</u>
	13,217,971	13,325,967	1,525,340	1,579,775	14,743,311	14,905,742
Construction in progress	-	5,480	-	-	-	5,480
Net capital assets	<u>\$ 13,217,971</u>	<u>13,331,447</u>	<u>1,525,340</u>	<u>1,579,775</u>	<u>14,743,311</u>	<u>14,911,222</u>

Long-term Debt. At year end, the Town had \$4,774,624 in governmental activities long-term note and promissory loan obligations outstanding, compared to \$5,078,678 one year earlier. All of the Town's long-term debt is secured solely by specified revenue sources and is not backed with the full faith and credit of the government. These obligations and the Town's compensated absences liabilities are reflected in the following schedule:

General Long-Term Debt						
September 30, 2013 and 2012						
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Capital Improvement Revenue						
Note, Series 2005.....	\$ 3,061,957	3,256,957	-	-	3,061,957	3,256,957
Florida Department of						
Environmental Protection State						
Revolving Fund Loan.....	<u>1,712,667</u>	<u>1,821,721</u>	<u>-</u>	<u>-</u>	<u>1,712,667</u>	<u>1,821,721</u>
	4,774,624	5,078,678	-	-	4,774,624	5,078,678
Compensated absences	<u>259,371</u>	<u>252,916</u>	<u>32,617</u>	<u>28,101</u>	<u>291,988</u>	<u>281,017</u>
General long-term debt.....	<u>\$ 5,033,995</u>	<u>5,331,594</u>	<u>32,617</u>	<u>28,101</u>	<u>5,066,612</u>	<u>5,359,695</u>

The Town has a 2005 capital improvement revenue note obligation payable to Bank of America totaling \$3,061,957 at year end. The proceeds of this Series 2005 loan were used to finance the acquisition of land and the construction of a Town Hall and Public Safety Complex. The Town makes semi-annual debt service payments on this obligation until 2024.

The Town has a low interest loan program offered by the Florida Department of Environmental Protection Clean Water State Revolving Fund Loan Program. The proceeds of this construction loan were used to develop and rehabilitate the Town's stormwater management infrastructure. The Town makes semi-annual debt service payments on this obligation until 2026. The balance due on this loan at year end was \$1,172,667.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the Town Council in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform utility fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide unemployment rate of 6.5% at the end of September 2013, which is substantially below the 8.5% rate experienced one year earlier. These estimates are consistent with the State of Florida's 6.9% and 8.4% unemployment rates at September 2013 and 2012, respectively, while the reported overall national unemployment rate is slightly lower at 7.0 and 7.6%, respectively.
- Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.

- The overall Taxable Value (Just Value less statutory exemptions) of real and personal property on the 2013 levy increased 1.2% from \$651 million to \$659 million in October 2012 and 2013, respectively. The Town Council voted to increase the operating millage for the 2013 levy to 6.5000 mills, which was 18.2% greater than the 5.5000 mills in the 2012 levy and 19.3% greater than the 2013 roll-back rate of 5.4487 mills.

In the process of presenting a balanced operating budget for the General Fund for 2013-2014 and to meet the challenges discussed above, a complete departmental review of the operational needs of each department was considered and submitted to the Town Manager for approval prior to being compiled and submitted to the Town Council for inclusion in the final budget.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Town Manager, Town of Ponce Inlet, Florida, 4300 South Atlantic Avenue, Ponce Inlet, Florida 32127.

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BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET POSITION
September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lighthouse Association
Assets:				
Cash and cash equivalents.....	\$ 1,295,297	335,131	1,630,428	317,898
Investments.....	1,619,961	262,949	1,882,910	369,054
Receivables, net.....	198,531	263,448	461,979	-
Inventories.....	6,796	-	6,796	158,310
Prepaid expenses.....	211,607	4,853	216,460	1,703
Other current assets.....	-	-	-	8,475
Temporarily restricted assets:				
Cash and cash equivalents.....	-	66,377	66,377	77,807
Investments.....	-	3,710	3,710	-
Capital assets:				
Land and construction in progress.....	4,569,460	4,033	4,573,493	407,450
Other capital assets, net of depreciation.....	<u>8,648,511</u>	<u>1,521,307</u>	<u>10,169,818</u>	<u>2,459,159</u>
Total assets.....	<u>\$ 16,550,163</u>	<u>2,461,808</u>	<u>19,011,971</u>	<u>3,799,856</u>
Liabilities:				
Cash overdraft in pooled cash.....	\$ -	1,329	1,329	-
Accounts payable and accrued liabilities...	169,470	227,827	397,297	48,854
Deposits/unearned revenue.....	39,466	248,919	288,385	-
Accrued interest payable.....	33,352	-	33,352	-
Other postemployment benefits.....	15,945	-	15,945	-
Long-term debt:				
Due within one year.....	314,961	-	314,961	-
Due in more than one year.....	4,459,663	-	4,459,663	-
Compensated absences.....	<u>259,371</u>	<u>32,617</u>	<u>291,988</u>	<u>-</u>
Total liabilities.....	<u>5,292,228</u>	<u>510,692</u>	<u>5,802,920</u>	<u>48,854</u>
Net Position:				
Invested in capital assets, net of related debt.....	8,443,347	1,525,340	9,968,687	2,866,609
Restricted for:				
Utility expansion.....	-	66,778	66,778	-
Law enforcement.....	20,113	-	20,113	-
Debt service.....	8,558	-	8,558	-
Transportation.....	39,620	-	39,620	-
Recreation.....	-	-	-	77,807
Unrestricted.....	<u>2,746,297</u>	<u>358,998</u>	<u>3,105,295</u>	<u>806,586</u>
Total net position.....	<u>\$ 11,257,935</u>	<u>1,951,116</u>	<u>13,209,051</u>	<u>3,751,002</u>

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

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

Functions / Programs	Program Revenues			
	Expenses	Charges For Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 1,652,129	335,935	-	-
Public safety.....	2,612,370	252,873	-	3,596
Physical environment.....	121,973	-	-	-
Transportation.....	387,863	-	81,818	61,539
Culture/recreation.....	168,324	51,896	123	-
Interest on long-term debt.....	<u>179,271</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>5,121,930</u>	<u>640,704</u>	<u>81,941</u>	<u>65,135</u>
Business-type Activities:				
Water utilities.....	1,298,142	1,228,384	-	7,306
Sewer utilities.....	887,330	903,344	-	-
Refuse utilities.....	<u>141,113</u>	<u>168,414</u>	<u>-</u>	<u>-</u>
Total business-type activities.....	<u>2,326,585</u>	<u>2,300,142</u>	<u>-</u>	<u>7,306</u>
Total primary government.....	<u>\$ 7,448,515</u>	<u>2,940,846</u>	<u>81,941</u>	<u>72,441</u>
Component Units:				
Lighthouse Association.....	<u>\$ 1,515,223</u>	<u>1,570,984</u>	<u>18,201</u>	<u>61,394</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes.....				
Public service taxes.....				
Other taxes.....				
Intergovernmental revenues.....				
Investment earnings.....				
Miscellaneous.....				
Transfers.....				
Total general revenues and transfers.....				
Change in net position.....				
Net position - beginning of year.....				
Net position - end of year.....				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Lighthouse Association
(1,316,194)	-	(1,316,194)	
(2,355,901)	-	(2,355,901)	
(121,973)	-	(121,973)	
(244,506)	-	(244,506)	
(116,305)	-	(116,305)	
<u>(179,271)</u>	<u>-</u>	<u>(179,271)</u>	
<u>(4,334,150)</u>	<u>-</u>	<u>(4,334,150)</u>	
-	(62,452)	(62,452)	
-	16,014	16,014	
<u>-</u>	<u>27,301</u>	<u>27,301</u>	
<u>-</u>	<u>(19,137)</u>	<u>(19,137)</u>	
<u>(4,334,150)</u>	<u>(19,137)</u>	<u>(4,353,287)</u>	
			<u>135,356</u>
3,470,684	-	3,470,684	-
507,511	-	507,511	-
13,556	-	13,556	-
209,848	-	209,848	-
17,365	1,899	19,264	5,510
57,345	459	57,804	995
<u>135,000</u>	<u>(135,000)</u>	<u>-</u>	<u>-</u>
<u>4,411,309</u>	<u>(132,642)</u>	<u>4,278,667</u>	<u>6,505</u>
77,159	(151,779)	(74,620)	141,861
<u>11,180,776</u>	<u>2,102,895</u>	<u>13,283,671</u>	<u>3,609,141</u>
<u>\$ 11,257,935</u>	<u>1,951,116</u>	<u>13,209,051</u>	<u>3,751,002</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	General	Timucuan Oaks	Public Land Acquisition and Facility	Debt Service
Assets:				
Cash and cash equivalents.....	\$ 527,307	114,356	587,097	2,253
Investments.....	1,595,232	-	18,424	6,305
Receivables, net.....	64,588	-	38,101	-
Due from other governments.....	95,726	-	-	-
Inventories.....	6,796	-	-	-
Prepaid expenses.....	<u>211,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>\$ 2,501,256</u>	<u>114,356</u>	<u>643,622</u>	<u>8,558</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses.....	\$ 147,345	21,960	-	-
Unearned revenue.....	<u>46,645</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities.....	<u>193,990</u>	<u>21,960</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Nonspendable.....	218,403	-	-	-
Restricted.....	39,620	-	-	8,558
Committed.....	1,171,935	-	643,622	-
Assigned.....	119,505	92,396	-	-
Unassigned.....	<u>757,803</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances.....	<u>2,307,266</u>	<u>92,396</u>	<u>643,622</u>	<u>8,558</u>
Total liabilities and fund balances.....	<u>\$ 2,501,256</u>	<u>\$ 114,356</u>	<u>\$ 643,622</u>	<u>\$ 8,558</u>

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

Other Governmental Funds	Total- Governmental Funds
64,284	1,295,297
-	1,619,961
-	102,689
116	95,842
-	6,796
-	211,607
<u>64,400</u>	<u>3,332,192</u>
165	169,470
-	46,645
<u>165</u>	<u>216,115</u>
-	218,403
20,113	68,291
-	1,815,557
44,122	256,023
-	757,803
<u>64,235</u>	<u>3,116,077</u>
<u>\$ 64,400</u>	<u>\$ 3,332,192</u>

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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**
September 30, 2013
TOWN OF PONCE INLET, FLORIDA

Total governmental activities fund balances.....		\$ 3,116,077
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		13,217,971
Revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenue in the funds:		
Delinquent tax revenues.....		7,179
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable, and capital lease obligations.....	(4,774,624)	
Accrued interest payable.....	(33,352)	
Other postemployment benefit obligation payable.....	(15,945)	
Compensatory wages payable.....	<u>(259,371)</u>	<u>(5,083,292)</u>
Net position of governmental activities.....		<u>\$ 11,257,935</u>

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	General	Timucuan Oaks	Public Land Acquisition and Facility	Debt Service
Revenue:				
Taxes:				
Property taxes.....	\$ 3,464,235	-	-	-
Local option gas taxes.....	143,357	-	-	-
Public service taxes.....	193,369	-	314,142	-
Business taxes.....	13,556	-	-	-
Permits, fees and assessments.....	437,373	-	37,172	-
Intergovernmental revenue	213,567	-	-	-
Charges for services.....	130,968	-	-	-
Fines and forfeitures.....	19,031	-	-	-
Investment earnings (loss).....	15,696	105	1,086	459
Miscellaneous revenue.....	56,589	-	-	-
Total revenue.....	<u>4,687,741</u>	<u>105</u>	<u>352,400</u>	<u>459</u>
Expenditures:				
Current:				
General government.....	1,497,451	-	-	-
Public safety.....	2,538,164	-	-	-
Physical environment.....	11,631	-	-	-
Transportation.....	386,482	-	-	-
Culture/recreation.....	104,837	278,559	-	-
Debt service:				
Principal.....	-	-	-	304,054
Interest.....	-	-	-	181,395
Total expenditures.....	<u>4,538,565</u>	<u>278,559</u>	<u>-</u>	<u>485,449</u>
Excess of revenue over expenditures.....	<u>149,176</u>	<u>(278,454)</u>	<u>352,400</u>	<u>(484,990)</u>
Other Financing Sources (Uses):				
Operating transfers in.....	118,550	-	-	487,207
Operating transfers (out).....	(133,544)	-	(328,663)	-
	<u>(14,994)</u>	<u>-</u>	<u>(328,663)</u>	<u>487,207</u>
Excess of revenue and other sources (under) expenditures and other uses.....	134,182	(278,454)	23,737	2,217
Fund balances - beginning of year.....	<u>2,173,084</u>	<u>370,850</u>	<u>619,885</u>	<u>6,341</u>
Fund balances - end of year.....	<u>\$ 2,307,266</u>	<u>92,396</u>	<u>643,622</u>	<u>8,558</u>

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

Other Governmental Funds	Total- Governmental Funds
-	3,464,235
-	143,357
-	507,511
-	13,556
14,788	489,333
-	213,567
-	130,968
1,372	20,403
19	17,365
<u>6,615</u>	<u>63,204</u>
<u>22,794</u>	<u>5,063,499</u>
-	1,497,451
-	2,538,164
-	11,631
-	386,482
6,133	389,529
-	304,054
-	<u>181,395</u>
<u>6,133</u>	<u>5,308,706</u>
<u>16,661</u>	<u>(245,207)</u>
-	605,757
<u>(8,550)</u>	<u>(470,757)</u>
<u>(8,550)</u>	<u>135,000</u>
8,111	(110,207)
<u>56,124</u>	<u>3,226,284</u>
<u>64,235</u>	<u>3,116,077</u>

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

Net change in fund balances - total governmental funds.....		\$ (110,207)
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 allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Expenditures for capital assets.....	415,221	
Less: net adjusted basis of current year asset disposals.....	(10,563)	
Less: current year provision for depreciation.....	<u>(518,134)</u>	(113,476)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Increase (decrease) in delinquent taxes.....		6,449
Some expenses reported in the statement of activities do not require the use of current financial resources are not reported as expenditures in the funds:		
(Increase) decrease in employee compensated absences.....	(6,455)	
(Increase) decrease in accrued interest on long-term debt obligations.....	2,124	
(Increase) decrease in other postemployment benefit obligation.....	<u>(5,330)</u>	(9,661)
Repayment of principal on long-term debt obligations is an expenditure in the governmental fund, but the repayments reduce long-term liabilities in the statement of net assets.....		<u>304,054</u>
Change in net position of governmental activities.....		<u>\$ 77,159</u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Taxes:				
Property taxes.....	\$ 3,483,798	3,482,798	3,464,235	(18,563)
Local option gas taxes.....	146,341	146,341	143,357	(2,984)
Public service taxes.....	183,916	183,916	193,369	9,453
Local business taxes.....	15,100	13,556	13,556	-
Permits and fees.....	396,965	423,700	437,373	13,673
Intergovernmental:				
Local half-cent sales tax.....	137,081	137,081	139,858	2,777
Other intergovernmental.....	70,152	72,187	73,709	1,522
Charges for services.....	71,483	121,300	130,968	9,668
Fines and forfeitures.....	26,880	16,600	19,031	2,431
Miscellaneous:				
Investment earnings.....	17,577	11,277	15,696	4,419
Contributions and donations.....	6,375	6,539	6,863	324
Miscellaneous revenues.....	<u>27,548</u>	<u>32,166</u>	<u>49,726</u>	<u>17,560</u>
Total revenues.....	<u>4,583,216</u>	<u>4,647,461</u>	<u>4,687,741</u>	<u>40,280</u>
Expenditures:				
General Government:				
Legislative.....	124,634	122,202	126,420	(4,218)
Executive.....	306,681	306,353	301,614	4,739
Finance and administrative.....	32,894	32,645	32,513	132
Legal.....	1,028,679	815,000	733,818	81,182
Planning and zoning.....	370,156	310,889	300,205	10,684
Nondepartmental.....	<u>1,500</u>	<u>3,200</u>	<u>2,881</u>	<u>319</u>
	<u>1,864,544</u>	<u>1,590,289</u>	<u>1,497,451</u>	<u>92,838</u>
Public Safety:				
Police.....	1,207,528	1,224,714	1,201,839	22,875
Fire.....	999,382	987,334	952,137	35,197
Protective Inspection.....	<u>364,444</u>	<u>393,039</u>	<u>384,188</u>	<u>8,851</u>
	<u>2,571,354</u>	<u>2,605,087</u>	<u>2,538,164</u>	<u>66,923</u>
Physical Environment:				
Stormwater.....	<u>24,580</u>	<u>10,851</u>	<u>11,631</u>	<u>(780)</u>
Transportation:				
Public works facilities.....	336,449	355,974	351,204	4,770
Road and street facilities.....	<u>48,500</u>	<u>43,400</u>	<u>35,278</u>	<u>8,122</u>
	<u>384,949</u>	<u>399,374</u>	<u>386,482</u>	<u>12,892</u>

The accompanying notes are an integral part of the financial statements

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**
For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Culture/Recreation.....	\$ 118,150	108,056	104,837	3,219
Total expenditures.....	4,963,577	4,713,657	4,538,565	175,092
Excess of revenue over (under) expenditures	(380,361)	(66,196)	149,176	215,372
Other Financing Sources (Uses):				
Transfers from:				
Police Education Fund.....	9,600	9,600	8,550	(1,050)
Sewer Fund.....	72,302	65,000	65,000	-
Refuse Fund.....	40,653	45,000	45,000	-
Appropriated fund balance.....	443,429	110,490	-	(110,490)
Appropriated for future use.....	(54,119)	(35,719)	-	35,719
Transfers to:				
Tree Bank Fund.....	-	5,369	-	(5,369)
Debt Service Fund.....	(131,504)	(133,544)	(133,544)	-
Total other financing sources (uses).....	380,361	66,196	(14,994)	(81,190)
Net change in fund balance.....	-	-	134,182	134,182
Fund Balance - Beginning of year.....	2,173,084	2,173,084	2,173,084	-
Fund Balance - End of year.....	\$ 2,173,084	2,173,084	2,307,266	134,182

The accompanying notes are an integral part of the financial statements

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - TIMUCUAN OAKS SPECIAL REVEUNE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 141	120	105	(15)
Total revenues.....	141	120	105	(15)
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	30,034	21,241	2,463	18,778
Capital outlay.....	341,000	258,795	276,096	(17,301)
Total expenditures.....	371,034	280,036	278,559	1,477
Excess of revenue over (under) expenditures	(370,893)	(279,916)	(278,454)	1,462
Other Financing Sources (Uses):				
Appropriated fund balance.....	370,893	279,916	-	(279,916)
Net change in fund balance.....	-	-	(278,454)	(278,454)
Fund Balance - Beginning of year.....	370,850	370,850	370,850	-
Fund Balance - End of year.....	\$ 370,850	370,850	92,396	(278,454)

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - PUBLIC LAND ACQUISITION AND FACILITY
SPECIAL REVENUE FUND**

For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Utility service taxes-electric.....	\$ 270,000	270,000	306,805	36,805
Utility service taxes-liquid propane.....	10,500	10,500	7,337	(3,163)
	<u>280,500</u>	<u>280,500</u>	<u>314,142</u>	<u>33,642</u>
Permits and fees:				
Franchise fees-solid waste.....	32,200	32,200	37,172	4,972
Miscellaneous Revenues:				
Investment earnings.....	385	150	1,086	936
Total revenues.....	313,085	312,850	352,400	39,550
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures	<u>313,085</u>	<u>312,850</u>	<u>352,400</u>	<u>39,550</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	15,578	15,883	-	(15,883)
Operating transfer to Debt Service Fund.....	(328,663)	(328,733)	(328,663)	70
Total other financing sources (uses).....	<u>(313,085)</u>	<u>(312,850)</u>	<u>(328,663)</u>	<u>(15,813)</u>
Net change in fund balance.....	-	-	23,737	23,737
Fund Balance - Beginning of year.....	619,885	619,885	619,885	-
Fund Balance - End of year.....	<u>619,885</u>	<u>619,885</u>	<u>643,622</u>	<u>23,737</u>

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Assets:				
Current Assets:				
Cash and cash equivalents.....	\$ 264,756	70,375	-	335,131
Investments.....	254,224	7,015	1,710	262,949
Restricted cash and cash equivalents.....	66,377	-	-	66,377
Restricted investments.....	3,710	-	-	3,710
Receivables, net:				
Accounts.....	28,367	11,635	3,027	43,029
Unbilled accounts.....	109,685	62,478	14,724	186,887
Due from other governments.....	33,532	-	-	33,532
Prepaid expenses.....	<u>4,853</u>	<u>-</u>	<u>-</u>	<u>4,853</u>
Total current assets.....	<u>765,504</u>	<u>151,503</u>	<u>19,461</u>	<u>936,468</u>
Noncurrent Assets:				
Capital Assets:				
Land and land rights.....	4,033	-	-	4,033
Distribution system.....	3,150,069	-	-	3,150,069
General utilities equipment.....	<u>151,901</u>	<u>-</u>	<u>-</u>	<u>151,901</u>
	3,306,003	-	-	3,306,003
Less: accumulated depreciation.....	<u>(1,780,663)</u>	<u>-</u>	<u>-</u>	<u>(1,780,663)</u>
Total noncurrent assets.....	<u>1,525,340</u>	<u>-</u>	<u>-</u>	<u>1,525,340</u>
Total assets.....	<u>2,290,844</u>	<u>151,503</u>	<u>19,461</u>	<u>2,461,808</u>
Liabilities:				
Cash overdraft in pooled cash.....	-	-	1,329	1,329
Accounts payable and accrued expenses.....	71,834	144,431	11,562	227,827
Customer deposits.....	248,919	-	-	248,919
Compensated absences.....	<u>32,617</u>	<u>-</u>	<u>-</u>	<u>32,617</u>
Total liabilities.....	<u>353,370</u>	<u>144,431</u>	<u>12,891</u>	<u>510,692</u>
Net Position:				
Invested in capital assets, net of related debt.....	1,525,340	-	-	1,525,340
Restricted for utility expansion.....	66,778	-	-	66,778
Unrestricted.....	<u>345,356</u>	<u>7,072</u>	<u>6,570</u>	<u>358,998</u>
Total net position.....	<u>\$ 1,937,474</u>	<u>7,072</u>	<u>6,570</u>	<u>1,951,116</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS**

For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Operating Revenues:				
Charges For Services:				
Water sales.....	\$ 1,194,509	-	-	1,194,509
Connection fees.....	3,870	-	-	3,870
Sewer charges.....	-	856,512	-	856,512
Port Orange's connection/impact fees.....	12,334	26,301	-	38,635
Other administrative charges.....	17,671	20,531	-	38,202
Refuse and recycling charges.....	-	-	168,414	168,414
Total operating revenue.....	<u>1,228,384</u>	<u>903,344</u>	<u>168,414</u>	<u>2,300,142</u>
Operating Expenses:				
Cost of sales.....	788,731	-	-	788,731
Personal services.....	295,604	-	-	295,604
Materials and supplies.....	18,965	-	-	18,965
Maintenance and repairs.....	6,219	-	-	6,219
Contractual services.....	41,861	856,515	140,701	1,039,077
Other expenses.....	9,757	1,246	412	11,415
Impact/connect fee payments to Port Orange.....	12,334	29,569	-	41,903
Depreciation.....	124,556	-	-	124,556
Total operating expenses.....	<u>1,298,027</u>	<u>887,330</u>	<u>141,113</u>	<u>2,326,470</u>
Operating income (loss).....	<u>(69,643)</u>	<u>16,014</u>	<u>27,301</u>	<u>(26,328)</u>
Nonoperating revenues (expenses):				
Investment earnings.....	542	1,264	93	1,899
Miscellaneous revenue (expense).....	459	-	-	459
Gain (loss) on asset disposals.....	(115)	-	-	(115)
Net nonoperating revenue (expenses).....	<u>886</u>	<u>1,264</u>	<u>93</u>	<u>2,243</u>
Income (loss) before contributions and transfers.....	(68,757)	17,278	27,394	(24,085)
Capital contributions.....	7,306	-	-	7,306
Transfer to General Fund.....	-	(65,000)	(45,000)	(110,000)
Transfer to Debt Service Fund.....	-	(12,500)	(12,500)	(25,000)
Net increase (decrease) in net position.....	(61,451)	(60,222)	(30,106)	(151,779)
Net position - beginning of year.....	<u>1,998,925</u>	<u>67,294</u>	<u>36,676</u>	<u>2,102,895</u>
Net position - end of year.....	<u>\$ 1,937,474</u>	<u>7,072</u>	<u>6,570</u>	<u>1,951,116</u>

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Cash Flows From Operating Activities:				
Cash received from customers and users.....	\$ 1,176,416	906,767	169,599	2,252,782
Cash paid for personal services.....	(289,415)	-	-	(289,415)
Cash paid to suppliers and others.....	<u>(866,156)</u>	<u>(885,378)</u>	<u>(141,107)</u>	<u>(1,892,641)</u>
Net cash provided by (used in) operating activities.....	<u>20,845</u>	<u>21,389</u>	<u>28,492</u>	<u>70,726</u>
Cash Flows From Noncapital and Related Financing Activities:				
Nonoperating revenues received.....	459	-	-	459
Operating transfers paid.....	<u>-</u>	<u>(77,500)</u>	<u>(57,500)</u>	<u>(135,000)</u>
Net cash provided by (used in) non- capital and related financing activities.....	<u>459</u>	<u>(77,500)</u>	<u>(57,500)</u>	<u>(134,541)</u>
Cash Flows From Capital and Related Financing Activities:				
Contributed capital received.....	19,640	-	-	19,640
Capital transfers to Port Orange.....	(10,830)	-	-	(10,830)
Acquisition of capital assets.....	<u>(70,237)</u>	<u>-</u>	<u>-</u>	<u>(70,237)</u>
Net cash provided by (used in) capital and related financing activities.....	<u>(61,427)</u>	<u>-</u>	<u>-</u>	<u>(61,427)</u>
Cash Flows From Investing Activities:				
Interest earnings received.....	<u>129</u>	<u>7</u>	<u>-</u>	<u>136</u>
Net increase (decrease) in cash and cash equivalents.....	(39,994)	(56,104)	(29,008)	(125,106)
Cash and cash equivalents - Beginning of year.....	<u>371,127</u>	<u>126,479</u>	<u>27,679</u>	<u>525,285</u>
Cash and cash equivalents - End of year.....	<u>\$ 331,133</u>	<u>70,375</u>	<u>(1,329)</u>	<u>400,179</u>
Reconciliation of cash and cash equivalents:				
Unrestricted cash.....	\$ 264,756	70,375	(1,329)	333,802
Restricted cash.....	<u>66,377</u>	<u>-</u>	<u>-</u>	<u>66,377</u>
Total - all sources.....	<u>\$ 331,133</u>	<u>70,375</u>	<u>(1,329)</u>	<u>400,179</u>

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

STATEMENT OF CASH FLOWS - (Continued)**PROPRIETARY FUNDS**

For the Year Ended September 30, 2013

TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss).....	\$ (69,643)	16,014	27,301	(26,328)
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Depreciation.....	124,556	-	-	124,556
Changes in assets and liabilities:				
Accounts receivable.....	(3,090)	3,423	1,185	1,518
Provisions for bad debt.....	(2,922)	248	7	(2,667)
Due from other governments.....	(33,532)	-	-	(33,532)
Prepaid expenses.....	4,249	-	-	4,249
Accounts payable.....	(710)	1,704	(1)	993
Compensated absences.....	4,949	-	-	4,949
Customer deposits.....	(3,012)	-	-	(3,012)
Net cash provided by operating activities.....	<u>\$ 20,845</u>	<u>21,389</u>	<u>28,492</u>	<u>70,726</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Ponce Inlet, Florida (the "Town"), have been prepared in conformance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of the Town's significant accounting policies:

A. Reporting Entity

The Town of Ponce Inlet, Florida, is a municipal corporation created by the Laws of Florida, located in Volusia County. The Town was originally incorporated under the general laws of Florida in May 1963 under the provisions House Bill No. 1133 (amending Article 2, Section 4, of Chapter 63-1829, Laws of Florida, Special Acts of 1963), and the Municipal Home Rule Power Act, F.S. Ch. 166. The legislative branch of the Town is composed of an elected five-member Town Council consisting of the Mayor and four Council members. The Town Council is governed by the Town Charter and by state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council-appointed Town Manager.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds controlled by or dependent on the Town. In evaluating the Town as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the Town's financial statements.

Discretely Presented Component Unit. The "component unit" column in the basic financial statements includes the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the "Lighthouse Association"). The financial statements of the Lighthouse Association are discretely reported in separate columns to emphasize that it is legally separate from the Town (primary government). The Lighthouse Association was created exclusively to manage the contribution of citizen efforts, services and resources in the development, restoration, improvement and operation of the Ponce DeLeon Inlet Lighthouse, a historical site owned by the Town of Ponce Inlet, under the terms of a maintenance agreement dated May 22, 1985.

The Lighthouse Association was created as a non-profit corporation and is exempt from income taxes under the provisions of Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Under its corporate charter, the Lighthouse Association must devote at least 70% of its gross receipts to undertaking its stated purpose. Furthermore, the Town Council has the authority to disapprove any activity(ies) of the Lighthouse Association deemed not to be in harmony with the responsibilities of the Town and all Lighthouse Association assets revert to the Town upon its dissolution.

Complete financial statements of the component unit can be obtained directly from the Association's administrative offices, which is as follows:

Administrative Office:
Ponce DeLeon Inlet Lighthouse Preservation Association, Inc.
4931 South Peninsula Drive
Ponce Inlet, FL 32127

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report aggregated information for the overall government for all of the activities of the primary government and the discretely presented component unit. The primary government is reported in two columns to separately report governmental activities from business-type activities. Component unit data is aggregated into a single column. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. When applicable, those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange revenues are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

The statement of net position presents the overall government's financial position at year-end. The statement of activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net position for the period. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the government, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other nonexchange revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual business-type funds are reported in separate columns in the fund financial statements.

C. 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 fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 3 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Property taxes, franchise fees, intergovernmental revenue, licenses and permits, charges for services, and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized and grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

- **Derived Tax Revenue**, defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.
- **Imposed Nonexchange Revenue**, result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.
- **Government-mandated Nonexchange Transactions**, frequently establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and the recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often offer resources on a reimbursement (“expenditure-driven”) basis at the time the recipient has incurred allowable costs under the applicable program.
- **Voluntary Nonexchange Transactions**, result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as deferred revenue.

Proprietary fund financial statements are reported using the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Based on the accounting and reporting standards set forth in Government Accounting Standards Board Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*”, the Town has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989, as it pertains to the accounting for proprietary fund activity.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

The Town's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The focus of the governmental and proprietary fund financial statements is on major funds, as defined and determined based on criteria established under Governmental Accounting Standards Boards Statement No. 34.

The Town reports the following major governmental funds:

- The **General Fund** is the principal fund of the Town which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the Town other than proprietary fund activities are financed through revenues received by the General Fund.
- The **Timucuan Oaks Special Revenue Fund** is a special revenue fund established by the Town to separately account for the accumulation of resources from all operating grants, capital grants, and Town contributions which shall be expended on project related expenditures associated with the development of a Town park and recreation area.
- The **Public Land Acquisition and Facility Fund** is a special revenue fund established by the Town pursuant to Section 2-322 of the Town's Code of Ordinances to account for the accumulation of franchise fees on garbage services and public service taxes in the sale of electricity, metered natural gas, liquefied petroleum and manufactured gas which shall be expended on acquiring real estate and for the construction of public facilities.
- The **Debt Service Fund** is a debt service fund established by the Town to separately account for the resources accumulated and payments made for principal and interest on general long-term debt of the Town's governmental funds.

The Town reports the following major proprietary funds:

- The **Water Utility Fund** accounts for the costs and recovery of costs in the form of user charges related to the purchase and distribution of potable water within the Town. The maintenance and improvement of utility plant required to provide these goods and services are financed primarily from user charges.
- The **Sewer Utility Fund** accounts for the activities of the Town's sewer utility system, which is owned and operated by the City of Port Orange. The costs of wastewater collection and pumping systems are recovered by user charges billed to customers by the Town pursuant to customer rate schedules established by Port Orange. All utility service amounts billed by the Town, and collected from its customers, are subsequently remitted to the City of Port Orange.
- The **Refuse Utility Fund** accounts for the activities of the Town's refuse collection system which provides the community with refuse and recycling services provided by third-party contracted vendors, the costs of which are recovered by user charges.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Additionally, the Town reports the following fund types:

- ***Special Revenue Funds*** - are used to account for the proceeds of specific revenue sources (other than special assessments, or capital projects) which are legally restricted to finance particular functions or activities of the Town. These funds include the Tree Bank Fund, Sidewalks Fund, Parks and Recreation Fund, Police Education Fund and Contraband/Forfeitures Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund Town activities has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes (when applicable) and other charges between the Town's water and sewer function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for utility sales and services. The Town recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the water system. Impact and connection fees are also assessed and collected from sewer customers which are remitted directly to the City of Port Orange to recover their costs connecting new customers to the sewer system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities, and Net position or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Town's investment policies are governed by state statutes and local resolution. These policies authorize the Town to invest in the Local Government Surplus Funds Trust Fund, authorized intergovernmental investment pools, Securities and Exchange Commission registered money market

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

funds (with rating exceptions), interest-bearing time deposits or savings accounts in qualified public depositories and direct obligations of the U.S. Treasury.

All of the Town's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances," when applicable.

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends. Utility operating sales are generally recognized on the basis of cycle billings rendered quarterly. Unbilled water, sewer and refuse accounts receivable are accrued by the Town at September 30th, to recognize the sales revenues earned between the last meter reading dates made in mid-September through the end of the fiscal year.

All unpaid property taxes receivable at year end are at least 180 days past due, at which time the applicable property is subject to lien, and penalties and interest are assessed.

3. Inventories and Prepaid Items

The cost of stored fuel inventory is accounted for on the consumption basis wherein inventories are charged as expenditures when used, rather than when purchased. All inventories are valued at cost, which approximates market. The effect of this method is to flow the costs of the fuel in the order in which they are purchased and to assign a balance sheet inventory valuation more nearly at current replacement value. No required minimum levels of inventory are maintained.

All other inventories are valued at the lower of actual cost or market and consist of the merchandise held for sale in the Lighthouse Association gift shop (a discretely presented component unit).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/ expenses when consumed rather than when purchased.

4. Restricted Assets

Certain proceeds from the imposition of the Town's impact fee requirements and from building permits are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable legal indentures.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

5. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the Town. The Town has elected to report all known infrastructure assets and related depreciation expense on all infrastructure assets in the entity-wide statement of net position and statement of activities.

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. Infrastructure assets are capitalized when their costs exceed \$5,000 and possess useful lives of more than two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized if they meet the dollar threshold above for capitalization.

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, but charged to operating expense as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Proprietary fund capital assets that are constructed include construction period interest that is capitalized net of interest earned on unexpended construction funds and, therefore, depreciated over the remaining useful life of the related asset, when applicable.

Depreciation is provided for by utilization of the straight-line method calculated on a service-life basis to amortize the cost of the assets over their economic estimated useful lives which are as follows:

Buildings.....	15 - 40 years
Source of supply plant.....	25 - 50 years
Pumping plant.....	25 - 50 years
Water treatment plant	25 - 50 years
Transmission and distribution plant	25 - 50 years
Infrastructure	15 - 50 years
Equipment.....	3 - 25 years

6. Compensated Absences

The portion of payroll costs paid subsequent to year-end attributable to services performed prior to year-end, including accumulated unpaid vacation and sick-leave, is recorded and recognized as a current liability. The portion of the liability for compensated absences attributable to periods beyond the current year is recognized as a long-term liability. The General Fund and Water Utility Fund employ personnel and are responsible for liquidating compensated absence obligations.

It is the Town's policy to grant employees personal leave based upon the number of years of employment with the Town. Annual leave for full-time general employees accrues at the rate of 144 to 264 hours per year based on number of years of employment. Annual leave for part-time (20-39 hours per week) general employees accrues at the rate of 72 to 132 hours per year based on number of years of employment. Annual leave for firefighters accrues at the rate of 204 to 372 hours per year based on number of years of employment. A cumulative total of 480 hours (60 days) is the maximum personal leave which may be carried over to the next calendar year. Upon termination, without cause, all accrued annual leave is paid.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

7. *Deferred Revenue*

Deferred revenues are reported when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

8. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Debt issuance costs, when incurred, are charged to expense in the fund receiving debt proceeds.

9. *Fund Equity*

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Those classifications are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation (i.e. when the government to assesses, levies, charges, or otherwise mandates payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation). The Town has classified Forfeitures as being restricted because their use is restricted by State Statute for police investigative expenditures. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

Committed - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Assigned - This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned - This classification includes the residual fund balance for the General Fund and fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. 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 (such as for special incentives). Assigned fund balance is established by the Town Council through adoption or amendment of the budget pursuant to the provisions of Part I, Article VI, Section 6.02 of the Town Charter as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In 2009, The Town Council approved Resolution 2009-04, "Policy for Reserve/Contingency Level of Operating Budget (Policy). Under the Policy, a portion of the fund balance of the General Fund is committed for stabilization arrangements, such as might be needed in emergency situations or when revenue shortages or budgetary imbalances occur. The Policy states that, an amount equal to at least 3 months (25%) of the annual operating revenue of the General Fund is to be committed for use in covering current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures and to ensure stable tax rates. At September 30, 2013, \$1,171,935 of the fund balance for the General Fund was reported as committed for economic stabilization. The Policy recognizes that under extreme conditions, the use of resources may result in the committed fund balance amount dropping below the established threshold. Such amounts are required to be reinstated by the end of the subsequent fiscal year.

10. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

11. Reclassifications

Certain amounts for 2012 have been reclassified to conform to the 2013 financial statement presentation.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

E. New Accounting Standards

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement is effective for periods beginning after December 15, 2012 and is not expected to have a material impact on the Town's financial position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. This statement, which is effective for financial statements for periods beginning after December 15, 2012, was adopted by the Town in 2013. The implementation of this standard did not have a material impact on the Town's financial position.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of Statement 67 is to improve financial reporting by state and local governmental pension plans. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013, which is the Town's fiscal year 2014. The impact to the Town's financial reporting has not been determined.

In June 2012, GASB issued Statement No 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The objective of Statement 68 is to improve accounting and financial reporting by state and local governmental employers about the financial support for pensions that is provided by other entities. Statement 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014, which is the Town's fiscal year 2015. The impact to the Town's financial reporting has not been determined.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of Statement 69 is to provide specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposal of government operations. The provisions of Statement 69 are effective for fiscal years beginning after December 15, 2013, which is the Town's fiscal year 2015. The implementation of this statement is not expected to have a material effect on the Town's financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of Statement 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of Statement 70 are effective for fiscal years beginning after June 15, 2013, which is the Town's fiscal year 2015. The implementation of this statement is not expected to have a material effect on the Town's financial statements.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net position

Following the governmental fund balance sheet is a reconciliation of the fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. A detailed explanation of these differences is provided in this reconciliation.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation of the net changes in fund balances B total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets for all governmental and proprietary funds were adopted in compliance with Florida law. The basis on which the budgets are prepared is consistent with the basis of accounting utilized by the various fund types. The governmental funds' budgets are prepared on the modified accrual basis of accounting. The proprietary funds' budgets are prepared on a full accrual basis of accounting. The Town uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or before August 1st, the Town Manager submits a preliminary budget to the Town Council for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the Town Council, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The Town Council, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Section 6.04 of the Town Charter. Prior to the end of the fiscal year, supplemental appropriations are typically made for unanticipated spending requirements by the Council.
- The Town Council must approve all inter-departmental budget amendments and/or appropriations transfers. The Town Manager is authorized to approve all intra-department budget amendments.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

- Budgetary control is exercised at the fund level.
- Every appropriation lapses at the close of the fiscal year.

B. Excess of Expenditures over Appropriations

During the year ended September 30, 2013 expenditures were incurred in excess of budgetary appropriations in the nonmajor Parks and Recreation special revenue fund in the amount of \$319, all of which was funded in its entirety from prior year surplus funds.

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The ad valorem millage rate assessed by the Town (2012 levy) was 5.500 mills. Collections on this levy were received during the year ended September 30, 2013. The Town's property tax calendar is as follows:

Assessment Roll Valuation Date January 1

Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1

Town Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date). November 1

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November through March, with the following applicable discounts: November 1

<u>Month Paid</u>	<u>Discount</u>
November	4%
December	3%
January	2%
February	1%
March	None

All unpaid taxes on real/tangible personal property become delinquent. April 1

Listings of unpaid real and personal property taxes are advertised. April/May

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date). June 1

A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes August

NOTE 5 - DEPOSITS AND INVESTMENTS

Deposits. At September 30, 2013, the carrying value of the Town’s cash deposit accounts totaled \$1,694,856 and the bank balance totaled \$1,700,693. Cash deposits and certificates of deposit totaling \$1,749,014, are held by banks that are fully insured and/or collateralized at September 30, 2013, as required by Chapter 280, Florida Statutes. Amounts do not include \$620 in cash funds on hand at the end of the fiscal year.

At September 30, 2013, the carrying value of the Lighthouse Association’s bank deposits totaled \$395,705. The bank balances for these deposits totaled \$395,705, all of which was insured and/or collateralized by the Federal Deposit Insurance Corporation. In addition, the Lighthouse Association holds \$369,054 in certificates of deposit, all of which are FDIC insured.

Investments. As of September 30, 2013, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)	
		Less Than 1	From 1 - 5
Certificates of deposit:			
Florida Qualified Public Depositories.....	\$ 500,000	250,000	250,000
Custodial and Non-Florida Depositories.....	<u>1,249,014</u>	<u>500,014</u>	<u>749,000</u>
Total certificates of deposit - primary government.....	1,749,014	750,014	999,000
Lighthouse Association - component unit.....	<u>369,054</u>	-	<u>369,054</u>
Total Certificates of Deposits.....	<u>2,118,068</u>	<u>750,014</u>	<u>1,368,054</u>
Local Government Investment Pool:			
State Board of Administration, Local Government Surplus Trust Fund Investment Pool			
Florida PRIME.....	105,217	105,217	-
Fund B.....	<u>32,388</u>	-	<u>32,388</u>
Totals.....	<u>\$ 2,255,673</u>	<u>855,231</u>	<u>1,400,442</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

The Town's investments consist of amounts invested in certificates of deposit and the Local Government Surplus Trust Fund managed by the Florida State Board of Administration (SBA). The SBA is part of the Local Government Surplus Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. As a Florida PRIME and Fund B pool participant, the Town invests in a pool of investments whereby the Town owns a share of the respective pool, not the underlying securities. The assets held in Fund B are presently restricted and the Town is prohibited from withdrawing any amounts from the pool.

The Town accounts for and reports its money market investment pools as either "2a-7 like" or fluctuating net asset value (NAV). A "2a-7 like" pool is an "external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act"). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions.

The Town has interpreted that the Florida PRIME is a SEC 2a-7 like fund, thus the account balance is also considered the fair value of the investment. The Town has interpreted that Fund B does not meet the requirements of an SEC 2a-7 like fund; therefore, an SBA provided fair value factor (i.e. total net asset value of Fund B divided by total participant balances of Fund B) has been used for September 30, 2013. The fair value of the remainder of the original investment in Fund B is \$32,388 as of September 30, 2013, based on the fair value factor of 1.13262284 reported by the trustees of Fund B.

The Lighthouse Association's investments consist of amounts invested in certificates of deposit with average maturities of 17 months.

At September 30, 2013, the Town had three individual investments in certificate of deposits in the aggregate amount of \$750,000 in financial institutions located outside the State of Florida that are not Qualified Public Depositories as defined in Section 280.02, Florida Statutes. While 100% of the investments are in FDIC insured depository accounts, they are not currently in compliance with the Town's restrictive Investment Policy.

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Town has developed formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments are governed by the Town's Investment Policies and related state statutes. Generally, the Town limits the acquisition of investments with maturities of greater than twenty-four months, unless such investments are purchased for holding to maturity. Interest rate risk is minimized for all other investments, which are normally held for periods of less than six months.

GASB 40, "*Deposit and Investment Risk Disclosures*," requires that interest rate risk be disclosed using one of the five approved methods for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a-7 like pool. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

At September 30, 2013, the WAM of the Florida PRIME is 44 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB 40 is not available. An estimate of weighted average life (WAL) is available. In the calculation of WAL, the time at which an expected principal amount is to be received (measured in years) is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL (based on expected future cash flows) of Fund B at September 30, 2013, is estimated at 4.04 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life. The estimate of Fund B's WAL decreased to 4.04 years as of September 30, 2013, from an estimate of 4.08 years as of September 30, 2012.

Credit Risk. The Town's investment policies allow the government to invest in Local Government Surplus Trust Fund Investment Pool, United States Government Securities, United States Government Agencies, federal instrumentalities, interest bearing time deposits or savings accounts, repurchase agreements, commercial paper, bankers' acceptances, state and/or local governmental taxable and/or tax-exempt debt, registered investment companies (money market and mutual funds), and authorized intergovernmental investment pools.

The Florida PRIME is rated by Standard and Poors, with a rating of AAAM as of September 30, 2013; Fund B is not rated by any nationally recognized statistical rating agency.

Concentrations of Credit Risk. The Town's investment policies place limits on portfolio composition, individual issuers and maturity limitations, all of which vary for each allowable investment type. Supplemental due diligence requirements have been established that must be met prior to investing with registered investment companies and intergovernmental investment pools.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a failure of a depository, the Town's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2013, the carrying amount of the Town's deposits in the Local Government Surplus Funds Trust Fund was \$137,606, all of which was covered by collateral securities in accordance with the Act. All remaining deposits and investments were adequately covered by federal depository insurance and/or the statutory provisions of the Act.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 6 – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables: Amounts are aggregated into single accounts receivable (net of allowance for uncollectible accounts) lines for certain funds and aggregated columns. Below is a detail of receivables for the governmental and business-type activities anticipated to be collected within an operating cycle:

Receivables, net	Primary Government			Component Unit
	Government Activities	Business Type Activities	Total	Lighthouse
Accounts receivable.....	\$ 102,689	45,084	147,773	-
Delinquent taxes receivable.....	7,179	-	7,179	-
Unbilled accounts receivable.....	-	186,887	186,887	-
Due from other governments.....	<u>95,842</u>	<u>33,532</u>	<u>129,374</u>	-
	205,710	265,503	471,213	-
Less: allowance for doubtful accounts....	<u>(7,179)</u>	<u>(2,055)</u>	<u>(9,234)</u>	-
Net receivables.....	<u>\$ 198,531</u>	<u>263,448</u>	<u>461,979</u>	<u>-</u>

Payables: Amounts are aggregated into single accounts payable and accrued liability lines for certain funds and aggregated columns. Below is a detail of payables for the governmental and business-type activities anticipated to be paid within an operating cycle:

Accounts Payable/Accrued Liabilities	Primary Government			Component Unit
	Government Activities	Business Type Activities	Total	Lighthouse
Accounts payable.....	\$ 110,706	74,205	184,911	48,854
Accrued wages.....	51,517	5,413	56,930	-
Accrued employee benefits.....	7,247	469	7,716	-
Due to other governments.....	<u>-</u>	<u>147,740</u>	<u>147,740</u>	-
Net payables.....	<u>\$ 169,470</u>	<u>227,827</u>	<u>397,297</u>	<u>48,854</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund Transfers - Transfers occur to move revenues from various funds to debt service funds as debt service principal and interest payments become due and to move funds to finance various programs, provide grant matching funds, or to subsidize operations that the Town must account for in other funds in accordance with budgetary authorizations. Interfund transfers between the Town’s governmental and business-type funds during the fiscal year ended September 30, 2013, are as follows:

	Transfer <u>From</u>	Transfer <u>To</u>
Governmental Activities:		
General Fund:		
Debt Service Fund.....	\$ -	133,544
Police Education Special Revenue Fund	8,550	-
Sewer Utility Fund.....	65,000	-
Refuse Utility Fund.....	45,000	-
Debt Service Fund:		
General Fund.....	133,544	-
Public Land Acquisition and Facility Fund.....	328,663	-
Sewer Utility Fund.....	12,500	-
Refuse Utility Fund.....	12,500	-
Public Land Acquisition and Facility Fund:		
Debt Service Fund.....	-	328,663
Nonmajor Funds:		
Police Education Special Revenue Fund:		
General Fund	-	8,550
	<u>605,757</u>	<u>470,757</u>
		<u>135,000</u>
Business-type Activities:		
Sewer Utility Fund:		
General Fund.....	-	65,000
Debt Service Fund.....	-	12,500
Refuse Utility Fund:		
General Fund.....	-	45,000
Debt Service Fund.....	-	12,500
	<u>-</u>	<u>135,000</u>
	<u>(135,000)</u>	
Totals - All funds.....	<u>\$ 605,757</u>	<u>605,757</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Capital assets, not being depreciated,				
Land.....	\$ 4,569,461	-	(1)	4,569,460
Construction in progress.....	<u>5,480</u>	-	<u>(5,480)</u>	<u>-</u>
	<u>4,574,941</u>	-	<u>(5,481)</u>	<u>4,569,460</u>
Capital assets, being depreciated,				
Buildings.....	5,374,312	37,492	-	5,411,804
Improvements other than buildings.....	4,744,170	282,796	-	5,026,966
Equipment and furniture.....	<u>2,420,228</u>	<u>100,413</u>	<u>(181,136)</u>	<u>2,339,505</u>
	12,538,710	420,701	(181,136)	12,778,275
Less: accumulated depreciation.....	<u>(3,782,204)</u>	<u>(518,134)</u>	<u>170,574</u>	<u>(4,129,764)</u>
	<u>8,756,506</u>	<u>(97,433)</u>	<u>(10,562)</u>	<u>8,648,511</u>
Net capital assets.....	<u>\$ 13,331,447</u>	<u>(97,433)</u>	<u>(16,043)</u>	<u>13,217,971</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government.....	\$ 158,651
Public safety.....	137,754
Physical environment.....	120,223
Transportation.....	656
Culture/recreation.....	<u>100,850</u>

Total depreciation expense..... \$ 518,134

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

B. Business-Type Activities

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Capital assets, not being depreciated,				
Land.....	\$ 4,033	-	-	4,033
Construction in progress.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,033</u>	<u>-</u>	<u>-</u>	<u>4,033</u>
Capital assets, being depreciated,				
Improvements other than buildings.....	3,168,838	56,701	(75,470)	3,150,069
Equipment and furniture.....	<u>138,366</u>	<u>13,535</u>	<u>-</u>	<u>151,901</u>
	3,307,204	70,236	(75,470)	3,301,970
Less: accumulated depreciation.....	<u>(1,731,462)</u>	<u>(124,556)</u>	<u>75,355</u>	<u>(1,780,663)</u>
	<u>1,575,742</u>	<u>(54,320)</u>	<u>(115)</u>	<u>1,521,307</u>
Net capital assets.....	<u>\$ 1,579,775</u>	<u>(54,320)</u>	<u>(115)</u>	<u>1,525,340</u>

There was no capitalized interest on outstanding tax-exempt debt obligations charged to completed and uncompleted projects during the year. There was no interest earnings recognized from the temporary investment of tax-exempt debt proceeds during the year. Depreciation expense for the year ended September 30, 2013 totaled \$124,556.

C. Discretely Presented Component Unit – Lighthouse Association

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Capital assets, not being depreciated,				
Land.....	\$ 407,450	-	-	407,450
Museum artifact collection.....	<u>449,998</u>	<u>186,219</u>	<u>-</u>	<u>636,217</u>
	<u>857,448</u>	<u>186,219</u>	<u>-</u>	<u>1,043,667</u>
Capital assets, being depreciated,				
Restoration and improvements.....	2,760,512	7,329	-	2,767,841
Equipment and furniture.....	<u>321,977</u>	<u>8,319</u>	<u>(24,218)</u>	<u>306,078</u>
	3,082,489	15,648	(24,218)	3,073,919
Less: accumulated depreciation.....	<u>(1,180,796)</u>	<u>(94,399)</u>	<u>24,218</u>	<u>(1,250,977)</u>
	<u>1,901,693</u>	<u>(78,751)</u>	<u>-</u>	<u>1,822,942</u>
Net capital assets.....	<u>\$ 2,759,141</u>	<u>107,468</u>	<u>-</u>	<u>2,866,609</u>

Depreciation expense for the year ended September 30, 2013 totaled \$94,399.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 9 - LEASE INCOME

The Town entered into an operating lease agreement to lease a portion of its real property for the construction of a cellular telephone tower. This lease was dated February 9, 2000, and had an initial term of five years, with four successive five-year renewal options. The second of the four successive five-year renewals was exercised in 2010, and will expire in 2015. The lease provides for annual rentals of \$18,648 throughout the second five-year extension period ending in 2015, \$20,793 for the third five-year extension period ending in 2020, and \$23,184 for the fourth five-year extension period ending 2025. This agreement shall continue in force for one-year periods if the agreement has not been terminated at the end of the fourth five-year extension, with rentals equal to that of the final five-year extension term. Lease revenue totaled \$18,649 for the year ended September 30, 2013. There was no revenue from subleases or assignments. Future minimum rentals to be received over the noncancelable remaining term of the lease are as follows: 2014 - \$18,648 and 2015 - \$18,648.

NOTE 10 - OPERATING LEASES

The Town leases equipment under operating leases and with the exception of the non-cancelable operating lease listed below, these leases have cancellation provisions and are subject to annual appropriations. For the year ended September 30, 2013, lease expenditures totaled \$13,352 for all types of leases.

Non-cancelable Lease. The Town leases office equipment under an agreement with an original term of five years, which is scheduled to expire in December, 2016. The minimum lease payments under this lease agreement are as follows: 2014- \$8,180; 2015- \$8,180; 2016- \$8180; and 2017- \$2,045.

NOTE 11 - LONG-TERM DEBT

The Town's long-term debt is comprised of the following at September 30, 2013:

A. Primary Government – Governmental Activities

Capital Improvement Revenue Note, Series 2005

In April 2005, the Town issued a Capital Improvement Revenue Note, Series 2005, which was originally issued for \$4,030,000 and is payable through July 2025. Proceeds from the note were used to finance the acquisition of real property and for related capital improvements. The note is secured by a pledge of the Town's electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee. The note bears interest at a fixed rate of 4.11% and is payable semi-annually on January 1 and July 1 through maturity on July 1, 2025. Principal payments are due annually on July 1 through maturity on July 1, 2025. The balance due on this obligation at September 30, 2013 totaled \$3,061,957. Current maturities due on this obligation totaled \$203,000 at September 30, 2013.

The total remaining principal and interest to be paid on the note totals \$3,939,853. During the current year, electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee revenue was \$567,038, compared to annual debt requirements of \$328,863.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Clean Water State Revolving Fund Loan

In October 2004, the Town entered into a state revolving fund loan agreement with the State of Florida Department of Environmental Protection to finance the planning, design, and construction of stormwater pollution control facilities. The loan is secured by specific pledged revenues which include the Town’s cell tower lease revenue, one to six cents local option fuel taxes, telecommunications excise taxes and a pledged annual transfer of \$25,000 from the utility enterprise fund. The original loan bears interest at 2.95% per annum for the first disbursement of \$96,559, 2.65% per annum for the first loan amendment disbursement of \$1,668,216, and 2.57% for the second loan amendment disbursement of \$303,500 and 2.62% for the third loan amendment disbursement of \$303,500. The loan is payable in semiannual payments due in March and September and becomes due in September 2026. The aggregate balance due on this obligation at September 30, 2013 was \$1,712,667. Current maturities due on this obligation totaled \$111,961 at September 30, 2013.

The total remaining principal and interest to be paid on the loan totals \$2,035,615. During the current year, the pledged revenues identified above totaled \$380,375, compared to annual debt requirements of \$156,586.

Loan Restrictions and Covenants - Pursuant to Sections 3.01 and 6.01 of the Loan Agreement, the Town is required to make Monthly Loan Deposits to the Loan Debt Service Account equal to one-sixth of the next succeeding semi-annual interest and principal payments. In the event of a failure to make the Monthly Loan Deposits, the Town is required to promptly notify the State of Florida Department of Environmental Protection of any such failure. During the year ended September 30, 2013, the Town made all the mandatory transfers on a timely basis, transferring the equivalent of the whole year’s transfer in October 2012.

Changes in Long-Term Debt

A summary of changes in the Town’s governmental activities long-term debt for the year is as follows:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Notes payable:				
Capital Improvement Revenue Note, Series 2005.....	\$ 3,256,957	-	(195,000)	3,061,957
Florida Department of Environmental Protection State Revolving Fund Loan.....	<u>1,821,721</u>	-	<u>(109,054)</u>	<u>1,712,667</u>
	5,078,678	-	(304,054)	4,774,624
Compensated absences.....	<u>252,916</u>	<u>75,875</u>	<u>(69,420)</u>	<u>259,371</u>
Total long-term debt.....	<u>5,331,594</u>	<u>75,875</u>	<u>(373,474)</u>	5,033,995
Less: current maturities.....				<u>(314,961)</u>
Net long-term debt.....				<u>\$ 4,719,034</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Debt Service To Maturity

Aggregate debt service requirements to maturity on long-term debt obligations are as follows:

Fiscal Year Ended September 30,	Capital Improvement Note Series 2005		FDEP State Revolving Fund Loan		Total
	Principal	Interest	Principal	Interest	
2014.....	203,000	125,848	111,961	44,624	485,433
2015.....	211,000	117,505	114,946	41,640	485,091
2016.....	219,000	108,833	118,010	38,575	484,418
2017.....	229,000	99,832	121,156	35,429	485,417
2018.....	238,000	90,420	124,386	32,200	485,006
2019-2023.....	1,344,000	297,112	673,478	109,451	2,424,041
2024-2026.....	<u>617,957</u>	<u>38,346</u>	<u>448,730</u>	<u>21,029</u>	<u>1,126,062</u>
Total - all periods.....	<u>\$ 3,061,957</u>	<u>877,896</u>	<u>1,712,667</u>	<u>322,948</u>	<u>5,975,468</u>

B. Primary Government – Business-Type Activities

The Town has no formal long-term debt obligations for business-type activities as of September 30, 2013. However, the Town provides for the recognition of compensated absences within the department which an employee serves.

Changes in Long-Term Debt

A summary of changes in the Town’s business-type activities long-term debt for the year is as follows:

	Balances 9/30/2012	Additions	Deletions	Balances 9/30/2013
Compensated absences.....	<u>27,668</u>	<u>8,300</u>	<u>(3,351)</u>	<u>32,617</u>
Total long-term debt.....	<u>27,668</u>	<u>8,300</u>	<u>(3,351)</u>	<u>32,617</u>
Less: current maturities.....				<u>-</u>
Net long-term debt.....				<u>\$ 32,617</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 12 – NET POSITION

The following table contains the individual components of the reported fund balance classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used at September 30, 2013:

Fund Balances	Major Funds					Total
	General Fund	Timucuan Oaks Fund	Public Land Acquisition and Facility Fund	Debt Service Fund	Nonmajor Funds	
Nonspendable:						
Inventories.....	\$ 6,796	-	-	-	-	6,796
Prepays.....	211,607	-	-	-	-	211,607
Restricted:						
Public safety.....	-	-	-	-	20,113	20,113
Debt service.....	-	-	-	8,558	-	8,558
Transportation gas tax.....	39,620	-	-	-	-	39,620
Committed:						
Operating reserve.....	1,171,935	-	-	-	-	1,171,935
Public Land Acquisitions...	-	-	643,622	-	-	643,622
Assigned:						
General government.....	8,947	-	-	-	-	8,947
Police.....	1,155	-	-	-	-	1,155
Fire.....	149	-	-	-	-	149
Emergency relief.....	100,000	-	-	-	-	100,000
Recreation.....	9,254	92,396	-	-	44,122	145,772
Unassigned.....	757,803	-	-	-	-	757,803
	<u>\$ 2,307,266</u>	<u>92,396</u>	<u>643,622</u>	<u>8,558</u>	<u>64,235</u>	<u>3,116,077</u>

NOTE 13 – EMPLOYEES’ PENSION PLANS

A. Florida Retirement System - Full-time Police Officers, Firefighters and General Employees

Plan Description. The Town contributes to the Florida (public employee) Retirement System of the State of Florida (the “FRS”), a cost-sharing, multiple-employer defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida for all regular full-time and regular part-time employees that were employed after September 30, 2007. Prior to October 1, 2007, the Town’s full-time police officers and firefighters were the only participants in the Florida Retirement System. The defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

complete financial report of the FRS may be obtained from the "System Information" section of the "Publications" page of the Division of Retirement's website at <http://frs.MyFlorida.com> or by writing the division at P. O. BOX 9000 Tallahassee, Florida, 32315-9000; or e-mailing Research and Education at rep@dms.MyFlorida.com or calling toll free at (877) 377-1737.

Funding Policy: The funding methods and determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer contribution rates are established by state law as a level percentage of payroll. Employer contribution rates are determined using the entry-age actuarial cost method. The consulting actuary recommends that rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. Unfunded actuarial liability as a result of future plan benefit changes, assumption changes, or methodology changes, is assumed to be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10 percent basis, as a level dollar amount.

Employer contributions to the plan for the fiscal years ended September 30, 2013, 2012, and 2011 totaled \$237,225, \$204,392, and \$312,325, respectively. Employees are required to contribute 3% of covered wages to the plan effective July 1, 2011. Effective July 1, 2011, covered employees are required to contribute 3% of qualifying wages to the plan. Employees' contributions to the plan for the fiscal years ended September 30, 2013, 2012 and 2011 totaled \$62,279, \$62,380, and \$17,533, respectively.

The following is a summary of employer contribution percentages for qualifying compensation paid to general participants and special risk participants in effect during each of the past three fiscal years (rates specified below include an additional 1.11% for the Town's option to include the health insurance subsidy contribution):

	<u>Regular Employees Employer</u>	<u>Special Risk Employee</u>	<u>Special Risk Employer</u>	<u>DROP Employer</u>
From July 1, 2010 to June 30, 2011.....	10.77%	0.00%	23.25%	12.25%
From July 1, 2011 to June 30, 2012.....	4.91%	3.00%	14.10%	4.42%
From July 1, 2012 to June 30, 2013.....	5.18%	3.00%	14.90%	5.44%
From July 1, 2013 to June 30, 2014.....	6.95%	3.00%	19.06%	12.84%

B. Defined Contribution Plans - General Employees

Florida Municipal Pension Trust Fund (the "FMPTF") - The Town participates in a qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a) to receive fixed employer contributions, which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Section 2-221 of the Town's Code of Ordinances, the Town established this plan for all regular full time and regular part time employees, except police officers and firefighters. All qualifying employees, with no age requirement, are eligible to participate in the plan immediately upon the date of employment. Employer contributions to the plan were 10% of the gross employee wages. Employees do not vest in employer contributions to the 401 Plan until after participating for 5 full years in the plan, at which time employees are 100% vested in the Plan.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

To accommodate both employer and employee contributions, the Town also offers all employees participation in an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457(b), and Section 2-291 of the Town's Code of Ordinances, to receive employee contributions. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 Plan. The vested portions of the accounts or contributions to the plan are available to the participants immediately upon termination of service. The Town has the power to amend plan provisions at any time.

On August 15, 2007, the Town Council adopted Ordinance 2007-20, amending the pension plan for general employees to allow for the conversion to the Florida Retirement System, effective October 1, 2007. As a result of these actions, twenty-two employees opted to withdraw from the above described retirement plan options and convert to the Florida Retirement System. Seven employees remained in the Plan. No new employees will be eligible for entry in the 401(a) plan after October 1, 2007.

The required employer contributions to the 401(a) Plan for the fiscal years ended September 30, 2013, 2012, and 2011, were \$3,942, \$3,932, and \$3,619, respectively. Employee contributions to the discretionary 457 Plan for the fiscal years ended September 30, 2013, 2012, and 2011 were \$16,812, \$17,604, and \$17,056, respectively.

International City Management Association Retirement Corporation (the "ICMA") - The Town participates in a qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a) to receive fixed employer contributions, which is administered by ICMA, 777 N. Capitol Street NE, Washington, DC 20002-4240. Under Section 2-291 of the Town's Code of Ordinances, the Town also contributes to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by ICMA. The Town's employees are eligible to participate in the 457 Plan immediately upon the date of employment. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan.

The required employer contributions to the 401(a) Plan for the fiscal year ended September 30, 2013, 2012, and 2011 were \$-0-, \$-0-, and \$-0-, respectively. Employee contributions to the 457 Plan for the fiscal years ended September 30, 2013, 2012, and 2011, were \$18,000, \$16,359, and \$16,560, respectively.

Nationwide Retirement Solutions - Under Section 2-291 of the Town's Code of Ordinances, the Town's employees may contribute to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by Nationwide Retirement Solutions, P. O. Box 182797, Columbus, OH 43218-2797. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan. Employee contributions to the 457 Plan for the fiscal years ended September 30, 2013, 2012, and 2011, totaled \$47,799, \$21,175, and \$51,405, respectively.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. Town of Ponce Inlet, Florida, Other Postemployment Benefits Plan (the “OPEB Plan”) is a single-employer healthcare plan administered by the Town. Pursuant to Section 112.0801, Florida Statutes, the Town is required to permit participation in the OPEB Plan to 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 employees. Eligible individuals include all regular employees of the Town who retire from active service under one of the pension plans sponsored by the Town. Under certain conditions, eligible individuals also include spouses and dependent children. The OPEB Plan does not issue a publicly available financial report.

Funding Policy. The contribution requirements of plan members and the Town are based on composite health insurance premium costs which are established by state statutes and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. The Town has opted to not fund the net OPEB obligation or the resulting unfunded actuarial accrued liability on an annual basis.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (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 any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town’s annual OPEB for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation to the Plan based on a the most recent actuarial valuation dated October 1, 2010:

	<u>09/30/2012</u>	<u>09/30/2013</u>
Annual required contribution (ARC)	\$ 13,218	13,537
Interest on prior Net OPEB obligation.....	248	478
Prior Net OPEB obligation adjustment.....	<u>(329)</u>	<u>(648)</u>
Annual OPEB cost (expense).....	13,137	13,367
Estimated net contributions made.....	<u>(8,022)</u>	<u>(8,037)</u>
Increase in net OPEB obligation.....	5,115	5,330
Net OPEB obligation-beginning of year.....	<u>5,500</u>	<u>10,615</u>
Net OPEB obligation-end of year	<u>\$ 10,615</u>	<u>15,945</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/13	\$13,367	\$ 8,037	61.13%	\$ 15,945
09/30/12	13,137	8,022	61.06%	10,615
09/30/11	14,083	8,583	60.95%	5,500

Funded Status and Funding Progress. Based on the October 1, 2010 actuarial valuation, the funded status of the OPEB Plan was as follows:

Actuarial accrued liability (AAL)	\$ 87,235
Actuarial value of plan assets.....	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 87,235</u>
Funded ratio (actuarial value of plan assets/AAL).....	0.00%
Covered payroll (annual payroll of active employees covered by the plan).....	\$ 1,748,392
UAAL as a percentage of covered payroll.....	4.99%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

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

In the October 1, 2010 actuarial valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 4.5% funding interest rate, an annual (pre- and post-Medicare) healthcare cost trend rate of 6% percent in 2013, reduced by 1% annual decreases to an ultimate rate of 5% in 2014. If, and when, funded, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll (closed amortization over 30 years) with payroll growth/inflation assumed to be 0.0%.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2013

TOWN OF PONCE INLET, FLORIDA

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

NOTE 16 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 17 – LEGAL MATTERS

The Town has been named as a defendant in a lawsuit and resultant claim regarding alleged damages from land use decisions made by the Town Council. After a twelve day bench trial in 2012, the trial judge entered an order finding in favor of the Plaintiff on the majority of its claims. Subsequent to the outcome of the trial, the Town entered into an interlocutory appeal at the 5th District Court of Appeals. On July 5, 2013, the 5th District Court of Appeals reversed the trial judge's ruling that the Town had violated the Bert Harris Act and inordinately burdened the Plaintiff's property. The Plaintiff has since requested the Florida Supreme Court to review the ruling of the 5th DCA. The Florida Supreme Court has not rendered a decision on the petition to invoke discretionary jurisdiction. At the present time, the trial judge has declined to enter judgment for the Town and has instead set the remaining matters for a jury trial commencing in May 2014. At this stage, management believes it is impracticable to determine whether the likelihood of an unfavorable outcome is either probable or remote, since the results of the appeal could drastically affect that analysis. This claim seeks monetary damages in a significant amount. In the event of an unsuccessful outcome, Plaintiffs' claimed damages are in excess of \$50 million. Moreover, if there is an adverse decision on damages, the Town has additional appeals it can only pursue at that time, although no decision regarding such additional appeals has yet been made. Claims resulting from litigation that are only reasonably possible to estimate are not accrued in the financial statements.

The Town is also from time to time engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of the Counsel to the Town, no other legal proceedings are pending or threatened which may materially affect the financial condition of the Town.

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 28, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT OBLIGATION
For the Year Ended September 30, 2013
TOWN OF PONCE INLET, FLORIDA

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2013	n/a	n/a	n/a	n/a	n/a	n/a
10/1/2012	n/a	n/a	n/a	n/a	n/a	n/a
10/1/2011	n/a	n/a	n/a	n/a	n/a	n/a
10/1/2010	\$ -	\$ 87,235	\$ 87,235	0.00%	\$ 1,748,392	4.99%
10/1/2009	n/a	n/a	n/a	n/a	n/a	n/a

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Other Contribution</u>	<u>Percent Contributed</u>
9/30/2013	\$ 13,367	\$ 8,037	\$ -	60.13%
9/30/2012	\$ 13,137	\$ 8,022	\$ -	61.06%
9/30/2011	\$ 14,083	\$ 8,583	\$ -	60.95%
9/30/2010	n/a	n/a	n/a	n/a
9/30/2009	n/a	n/a	n/a	n/a

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OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

BUDGETARY COMPARISON SCHEDULES

OTHER MAJOR FUNDS

OTHER NONMAJOR FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2013
TOWN OF PONCE INLET, FLORIDA

	Special Revenue Funds			
	Tree Bank	Sidewalks	Parks and Recreation	Police Education
Assets:				
Cash and cash equivalents.....	\$ 12,677	28,661	2,949	11,792
Due from other governments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>116</u>
Total assets.....	<u>\$ 12,677</u>	<u>28,661</u>	<u>2,949</u>	<u>11,908</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses.....	\$ -	-	165	-
Total liabilities.....	<u>-</u>	<u>-</u>	<u>165</u>	<u>-</u>
Fund Balances:				
Restricted.....	-	-	-	11,908
Assigned.....	<u>12,677</u>	<u>28,661</u>	<u>2,784</u>	<u>-</u>
Total fund balances.....	<u>12,677</u>	<u>28,661</u>	<u>2,784</u>	<u>11,908</u>
Total liabilities and fund balances.....	<u>\$ 12,677</u>	<u>28,661</u>	<u>2,949</u>	<u>11,908</u>

Contraband Forfeitures	Total- Nonmajor Governmental Funds
8,205	64,284
<u>-</u>	<u>116</u>
<u>8,205</u>	<u>64,400</u>
 <u>-</u>	 <u>165</u>
 <u>-</u>	 <u>165</u>
 8,205	 20,113
<u>-</u>	<u>44,122</u>
<u>8,205</u>	<u>64,235</u>
 <u>8,205</u>	 <u>64,400</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	Special Revenue Funds			
	Tree Bank	Sidewalks	Parks and Recreation	Police Education
Revenue:				
Permits and fees.....	\$ 12,701	-	2,087	-
Fines and forfeitures.....	-	-	-	1,372
Miscellaneous:				
Investment earnings.....	1	10	1	4
Miscellaneous revenue.....	-	6,615	-	-
	<u>1</u>	<u>6,625</u>	<u>1</u>	<u>4</u>
Total revenue.....	<u>12,702</u>	<u>6,625</u>	<u>2,088</u>	<u>1,376</u>
Expenditures				
Current:				
Culture/recreation.....	-	264	5,869	-
Total expenditures.....	-	264	5,869	-
Excess of revenue over (under) expenditures.....	12,702	6,361	(3,781)	1,376
Other Financing Sources (Uses):				
Operating transfers (out).....	-	-	-	(8,550)
Net change in fund balances.....	12,702	6,361	(3,781)	(7,174)
Fund Balances - Beginning of year.....	(25)	22,300	6,565	19,082
Fund Balances - End of year.....	<u>\$ 12,677</u>	<u>28,661</u>	<u>2,784</u>	<u>11,908</u>

<u>Contraband Forfeitures</u>	<u>Total- Nonmajor Governmental Funds</u>
<u>-</u>	<u>14,788</u>
<u>-</u>	<u>1,372</u>
3	19
<u>-</u>	<u>6,615</u>
<u>3</u>	<u>6,634</u>
<u>3</u>	<u>22,794</u>
<u>-</u>	<u>6,133</u>
<u>-</u>	<u>6,133</u>
3	16,661
<u>-</u>	<u>(8,550)</u>
3	8,111
<u>8,202</u>	<u>56,124</u>
<u>8,205</u>	<u>64,235</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - DEBT SERVICE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous Revenues:				
Investment earnings (loss).....	\$ 282	172	459	287
Total revenues.....	282	172	459	287
Expenditures:				
Debt Service:				
2005 Capital Improvement Revenue Note:				
Principal payments.....	195,000	195,000	195,000	-
Interest payments.....	133,863	133,863	133,863	-
State Revolving Fund Loan:				
Principal payments.....	109,054	109,054	109,054	-
Interest payments.....	47,532	47,532	47,532	-
	485,449	485,449	485,449	-
Total expenditures.....	485,449	485,449	485,449	-
Excess of revenue over (under) expenditures	(485,167)	(485,277)	(484,990)	287
Other Financing Sources (Uses):				
Operating transfer from General Fund.....	131,504	133,544	133,544	-
Operating transfer from Public Land Acquisition and Facility Fund.....	328,663	328,733	328,663	(70)
Operating transfer from Sewer Fund.....	12,500	12,500	12,500	-
Operating transfer from Refuse Fund.....	12,500	12,500	12,500	-
Appropriated for future use.....	-	(2,000)	-	2,000
Total other financing sources (uses).....	485,167	485,277	487,207	1,930
Net change in fund balance.....	-	-	2,217	2,217
Fund Balance - Beginning of year.....	6,341	6,341	6,341	-
Fund Balance - End of year.....	\$ 6,341	6,341	8,558	2,217

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - TREE BANK SPECIAL REVENUE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Permits and fees:				
Tree assessment.....	\$ -	12,701	12,701	-
Miscellaneous:				
Investment earnings.....	-	2	1	(1)
Total revenues.....	-	12,703	12,702	(1)
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures	-	12,703	12,702	(1)
Other Financing Sources (Uses):				
Operating transfer to General Fund.....	-	(5,369)	-	5,369
Appropriated for future use.....	-	(7,334)	-	7,334
Total other financing sources (uses).....	-	(12,703)	-	12,703
Net change in fund balances.....	-	-	12,702	12,702
Fund Balances - Beginning of year.....	(25)	(25)	(25)	-
Fund Balances - End of year.....	<u>\$ (25)</u>	<u>(25)</u>	<u>12,677</u>	<u>12,702</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - SIDEWALKS SPECIAL REVEUNE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 20	13	10	(3)
Miscellaneous revenue.....	<u>-</u>	<u>6,615</u>	<u>6,615</u>	<u>-</u>
Total revenues.....	<u>20</u>	<u>6,628</u>	<u>6,625</u>	<u>(3)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	<u>1,584</u>	<u>264</u>	<u>264</u>	<u>-</u>
Total expenditures.....	<u>1,584</u>	<u>264</u>	<u>264</u>	<u>-</u>
Excess of revenue over (under) expenditures	<u>(1,564)</u>	<u>6,364</u>	<u>6,361</u>	<u>(3)</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	1,564	-	-	-
Appropriated for future use.....	<u>-</u>	<u>(6,364)</u>	<u>-</u>	<u>6,364</u>
Total other financing sources (uses).....	<u>1,564</u>	<u>(6,364)</u>	<u>-</u>	<u>6,364</u>
Net change in fund balance.....	-	-	6,361	6,361
Fund Balance - Beginning of year.....	<u>22,300</u>	<u>22,300</u>	<u>22,300</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 22,300</u>	<u>22,300</u>	<u>28,661</u>	<u>6,361</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - PARKS AND RECREATION SPECIAL REVENUE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Permits and fees:				
Impact fees-residential.....	\$ 3,130	2,087	2,087	-
Miscellaneous:				
Investment earnings.....	<u>7</u>	<u>2</u>	<u>1</u>	<u>(1)</u>
Total revenues.....	<u>3,137</u>	<u>2,089</u>	<u>2,088</u>	<u>(1)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	1,715	1,950	2,269	(319)
Capital outlay.....	<u>5,586</u>	<u>3,600</u>	<u>3,600</u>	<u>-</u>
Total expenditures.....	<u>7,301</u>	<u>5,550</u>	<u>5,869</u>	<u>(319)</u>
Excess of revenue over (under) expenditures	<u>(4,164)</u>	<u>(3,461)</u>	<u>(3,781)</u>	<u>(320)</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>4,164</u>	<u>3,461</u>	<u>-</u>	<u>(3,461)</u>
Net change in fund balance.....	-	-	(3,781)	(3,781)
Fund Balance - Beginning of year.....	<u>6,565</u>	<u>6,565</u>	<u>6,565</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 6,565</u>	<u>6,565</u>	<u>2,784</u>	<u>(3,781)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUEGET AND ACTUAL - POLICE EDUCATION SPECIAL REVENUE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Fines and Forfeitures:				
Fines and forfeitures.....	\$ 1,850	1,300	1,372	72
Miscellaneous:				
Investment earnings.....	15	6	4	(2)
Total revenues.....	1,865	1,306	1,376	70
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures	1,865	1,306	1,376	70
Other Financing Sources (Uses):				
Operating transfer to General Fund.....	(9,600)	(9,600)	(8,550)	1,050
Appropriated fund balance.....	9,600	8,294	-	(8,294)
Appropriated for future use.....	(1,865)	-	-	-
Total other financing sources (uses).....	(1,865)	(1,306)	(8,550)	(7,244)
Net change in fund balances.....	-	-	(7,174)	(7,174)
Fund Balances - Beginning of year.....	19,082	19,082	19,082	-
Fund Balances - End of year.....	<u>\$ 19,082</u>	<u>19,082</u>	<u>11,908</u>	<u>(7,174)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - CONTRABAND FORFEITURES SPECIAL REVENUE FUND**
 For the Year Ended September 30, 2013
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 5	4	3	(1)
Total revenues.....	5	4	3	(1)
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures	5	4	3	(1)
Other Financing Sources (Uses):				
Appropriated for future use.....	(5)	(4)	-	4
Net change in fund balances.....	-	-	3	3
Fund Balances - Beginning of year.....	8,202	8,202	8,202	-
Fund Balances - End of year.....	<u>\$ 8,202</u>	<u>8,202</u>	<u>8,205</u>	<u>3</u>

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COMPLIANCE SECTION

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BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the "Town"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 28, 2014. Our report includes a reference to other auditors who audited the financial statements of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit, as described in our report on the Town's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

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

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

The Honorable Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida
Page 2

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

Compliance and Other Matters

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

Purpose of this Report

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

Brent Milliken & Co., P.A.

February 28, 2014

BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

The Honorable Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited the financial statements of Town of Ponce Inlet, Florida, (the "Town") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 28, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on 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 February 28, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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 audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted in the attached Management Letter Comments under the heading of Prior Year Matters.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that Town of Ponce Inlet, Florida, complied with Section 218.415, Florida Statutes, except as noted in the attached Management Letter Comments under the heading of Current Year Matters.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our recommendations are noted in the attached Management Letter Comments under the heading of Current Year Matters.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Town of Ponce Inlet, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Town of Ponce Inlet, Florida, for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town'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. As part of our assessment, we evaluated the results of financial indicators developed by the Office of the Auditor General for quantitative analysis. Of the 24 financial indicators analyzed, we determined that 4 were favorable, 13 were unfavorable, and 7 were inconclusive. These results showed a negative trend when compared to the prior year. See our commentary on the results of our financial condition assessment procedures in the attached Management Letter Comments under the heading of Prior Year Matters.
- Section 10.558(1) Rules of the Auditor General, requires the local government to provide a written statement of explanation or rebuttal concerning the auditor's findings and recommendations, including corrective action to be taken which must be filed with the governing body of the local governmental entity and included in the auditor's reports or management letter prepared pursuant to Section 218.39(4), Florida Statutes. Town of Ponce Inlet, Florida's statements of explanation or rebuttal are described herein in the "*Auditee Response*" section, which follows each of the auditor's findings and recommendations. We did not audit Town of Ponce Inlet, Florida's response and, accordingly, we express no opinion on it.

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

Brent Milliken & Co., P.A.

February 28, 2014

MANAGEMENT LETTER COMMENTS

Year Ended September 30, 2013

TOWN OF PONCE INLET, FLORIDA

PRIOR YEAR MATTERS

The following table summarizes the status of the prior year findings and management letter comments issued by the external auditor in fiscal year 2012:

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
Centralization of Grant Administration		x	2011-03
Financial Condition Assessment Procedures	x		2012-01

All prior year matters have been appropriately resolved, except for the following:

2012-01 Financial Condition Assessment Procedures

Chapter 10.550, Rules of the Auditor General require certain disclosures in the management letter when mandatory financial condition assessment procedures reveal a declining financial position, and whether the declines are due to deteriorating financial position. These procedures also require the Town to make representations concerning whether resources are available to fund anticipated future deficits. As of September 30, 2013, the Town is continuing to face declining financial position, and the declines appear to be the result of deteriorating financial position, as is evidenced from our observations of the declines in three of the four critical financial condition assessment indicators, which are summarized as follows.

- *Financial Indicator No.2-Unassigned and Assigned Fund Balance plus Unrestricted Net Assets.* At September 30, 2013, 2012, and 2011, the Town's aggregate (adjusted) unassigned and assigned fund balances and unrestricted net assets totaled \$1,101,877, \$1,295,456, and \$2,662,510, respectively. These balances reflect that the Town recognized a 40% decrease in unrestricted equity from 2010 to 2011; a 51% decrease in unrestricted equity from 2011-2012; and a 15% decrease in equity from 2012 to 2013. Over the three year period, the Town's net equity has declined from \$4.4 million at the end of 2010 to \$1.1 million at the end of 2013, which represents an aggregate equity decline of 75%. While steps have been employed by the Town, the resultant three-year trend indicates a significant deterioration of financial position.
- *Financial Indicator No.4 (G)-Cash & Investments divided by Current Liabilities-Governmental Funds.* The aggregate balance of unrestricted cash and investments stated as a percent of current liabilities in the Town's governmental activities has declined for three consecutive years. Over each of the last three years, the Town's net investment in unrestricted surplus cash funds, time deposits and other investments reported in its governmental activities have declined. Cash and investments reported were down -7.6%, -27.5% and -7.7% at the end of 2011, 2012 and 2013, respectively. These continued declines in liquidity over each of the three years indicate a continuing deterioration of financial position.

MANAGEMENT LETTER COMMENTS – (Continued)

Year Ended September 30, 2013

TOWN OF PONCE INLET, FLORIDA

- *Financial Indicator No.4 (P)-Cash & Investments divided by Current Liabilities-Proprietary Funds.* The aggregate balance of unrestricted cash and investments stated as a percent of current liabilities in the Town's business-type activities has declined for three consecutive years and is reported to be 75% lower than the average of the Town's peer group at the end of 2013. Over each of the last three years, the Town's net investment in unrestricted surplus cash funds, time deposits and other investments reported in its business-type activities have declined. Cash and investments reported were down -3.4%, -10.8% and -15.4% at the end of 2011, 2012 and 2013, respectively. These continued declines in liquidity over each of the three years indicate a continuing deterioration of financial position.

Recommendation: A significant portion of the Town's continued decline in liquidity and net reserves over the last three years can be attributed to the unanticipated and continuing costs of legal services incurred representing the Town as the defendant in a material and ongoing legal proceeding. While continuing declines have been recognized over each year, the Town has experienced difficulty in identifying and developing significant additional source(s) of revenue capable of offsetting or recovering these litigation costs, which are expected to continue into next year, or longer. To partially mitigate this condition, the Town has successfully retained unassigned and assigned fund equity, including amounts committed for contingency funding (of 25% of the annual operating revenue in the General Fund of \$1.2 million at the end of 2013) sufficient to provide stability during this period. In that respect, aggregate amounts retained in the General Fund continue to remain relatively reasonable and represent approximately 45% (or 5.4 months) of the Town's annual General Fund operating expenditures. However, these current levels of surplus equity may be difficult to maintain in future years.

We continue to recommend that steps should be considered to ensure that the Town is continually monitoring its liquidity and reserve requirements to ensure that it can continue to meet its ongoing operational funding requirements. We also recommend that the Town should develop and implement procedures that require the continuous monitoring of the Town's financial position, and take the necessary steps to restore sound financial health and stability. We also recommend that you should consider the adoption of increased charges for services and user fees town-wide sufficient to alleviate current deficiencies.

Auditee Response: Due to the fact that the general fund reserve had exceeded the maximum for which the Town policy allowed in fiscal year 10/11, when budgeting for fiscal year 11/12, the Town Council determined that the Town's reserve fund would be used for certain pending litigation. This was a very large expense and the reserve fund was hit hard. In putting the budget together for fiscal year 12/13, further use of reserve funds was very limited. The reserve fund remains in excess of the Town's minimum standard of three months (25%).

MANAGEMENT LETTER COMMENTS – (Continued)

Year Ended September 30, 2013

TOWN OF PONCE INLET, FLORIDA

CURRENT YEAR MATTERS

The following table summarizes the current year findings and management letter comments issued by the external auditor in fiscal year 2013:

2013-01 Investment of Public Funds

Over the last several years, the Town has attempted to substantially reduce and/or eliminate its exposure to custodial credit risk with the implementation of an informal investment program designed to invest the Town's surplus funds in certificates of deposit (CDs) with banking institutions in amounts that do not exceed the federally insured limits of the Federal Deposit Insurance Corporation (FDIC). To meet this objective, the Town has placed CDs with seven (7) individual banking institutions, each of which are in the original principal amount of \$250,000 (approximately \$1.75 million in aggregate), and all of which are fully insured by the FDIC. In the process of making these investments solely to maximize the Town's investment yields, the Town acquired three of the seven CDs (approximately \$750,000 in aggregate) directly with banking institutions which are headquartered out of the State of Florida, and which are not Qualified Public Depositories (QPDs) as defined by Section 280.02, Florida Statutes. Even though the investments in each of the three CDs are fully insured by FDIC, the Town is prohibited from investing in these entities based on the provisions of Section 218.415(16)(c), F.S., and Section XII, E.1 of the Town's formal Investment Policy, both of which expressly limit the Town's investments in CD's to banks which must qualify as a QPD. In addition, Section XII, E.2 and Section XII, E.4 of the Town's formal Investment Policy limit the portfolio composition percentage and maximum maturities, respectively. Amounts invested in CDs cannot exceed 50% of the Town's available funds (currently 48.8% at September 30, 2013) and cannot have original maturities in excess of one year (currently average maturities are 23 months and range from 15 months to 36 months). Investing in non-qualified public depositories and holding maturity dates beyond those established by the Town decreases both the safety of capital and the liquidity of funds.

Recommendation: As the Town's need to utilize surplus funds for operating costs has continued to increase in each of the past three years, we recommend that you should perform an assessment of your immediate short-term liquidity requirements in an effort to ensure that you are able to maintain sufficient levels of unencumbered surplus funds available to meet your immediate and projected cash flow needs. To achieve this, we recommend that you should evaluate all current and future CD investments to ensure that all are procured and maintained in accordance with the Town's restricted investment policies, portfolio concentration requirements and terms of maturities. In addition, we recommend that you should consider revising your current Investment Policy (approved by ordinance in accordance with Section 218.415(16)(h), F.S.) to specifically amend the purchase authorization, portfolio composition and maturity requirements contained therein to provide for matching your current investment strategy.

Auditee Response: Due to the substantial declines in investment interest rates available to the Town over each of the past several years, steps have been taken to ensure that all of the Town's investments are in viable, but safe, options that maximize the rates of return on the investment of surplus funds, including the purchase of FDIC insured local bank and brokered certificates of deposit. To substantially reduce its custodial credit risks, all investments made by the Town have been approved by the Town Council, awarded based on competitive bidding procedures, and made with both domestic and out-of-state banking entities only in amounts that do not exceed the federally insured limits of the FDIC. While three of the seven CDs were made with entities located outside of the state of Florida, all of these investments were determined to be safe (fully insured by the FDIC) and were made in accordance with the investment composition and maturity requirements of the Town which existed at the time the investments were made.

MANAGEMENT LETTER COMMENTS – (Continued)

Year Ended September 30, 2013

TOWN OF PONCE INLET, FLORIDA

Since the Town Council's underlying investment strategies regarding purchase authorization, portfolio composition and maturity requirements have changed since the adoption of the Investment Policy in 2006, management will consider revising the Investment Policy to more accurately reflect the investment strategy of the Town Council.

2013-02 Utility Payments to City of Port Orange

Throughout the normal course of business the Town engages in numerous transactions with the City of Port Orange for various water and sewer utility matters. Pursuant to an approved Interlocal Agreement, the Town performs all customer account billings, collections and contract payments for sewer services associated with the Town's sewer utility system, which is owned and operated by the City of Port Orange. The costs of wastewater collection and pumping systems are recovered by user charges billed to customers by the Town pursuant to customer rates established by the City of Port Orange. All utility service amounts billed by the Town, and collected from its customers, are subsequently remitted to the City of Port Orange. In addition it is the Town's responsibility to require connection to the sewer system and to collect applicable sewer connection and impact fees. During the current year, we noted one month in which the Town had erroneously overpaid the City of Port Orange \$1,000 for sewer charges. In addition there was also an instance that arose where the Town had not properly identified a property that was required to connect to the sewer system and pay a connection fee at the time of sale. Due to this oversight, the Town incurred the cost of sewer connection and impact fees of \$3,268 on this property. Furthermore, the Town is also required to remit certain water impact fee collections to the City of Port Orange. During the performance of our audit procedures we noted one occurrence where monies collected for water impact fees in the amount of \$3,309 had not been properly identified and remitted to the City of Port Orange.

Recommendation: We recommend that the steps should be employed by supervisory personnel to examine all monthly sewer utility billing reconciliations and the underlying accounting records supporting such, prior to approving and remitting payments. In addition we recommend that the Town perform timely reconciliations between water and sewer impact fee collections and the amounts being remitted to Port Orange.

Auditee Response: Management will assign the responsibility of reviewing the monthly utility billings and related collection amounts by a supervisor prior to granting authorization for the remittance of collections to the City of Port Orange. The Town has also developed and employed safeguards within their IT systems to flag all properties on which lien inquiries are made to indicate that if an existing septic tank is in place, it will no longer be usable by the successor buyer, and that the buyer must connect to the sewer system. A warning message pops-up each time the customer's account is opened for inquiry purposes.

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