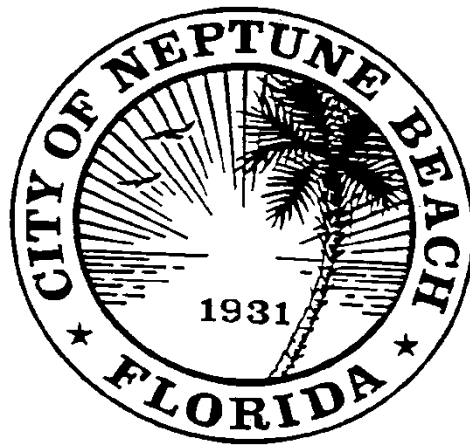


**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
CITY OF NEPTUNE BEACH, FLORIDA
SEPTEMBER 30, 2016**



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
CITY OF NEPTUNE BEACH, FLORIDA
SEPTEMBER 30, 2016**

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

SEPTEMBER 30, 2016

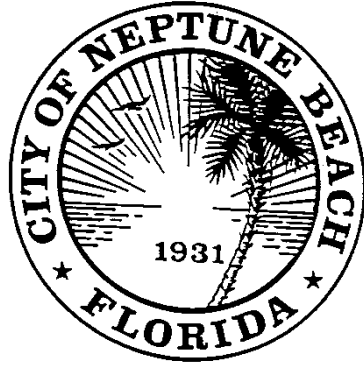
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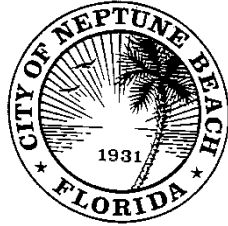
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Introductory Section

Annual Financial Report



City of Neptune Beach, Florida

Principal Officials

(September 30, 2016)

Elected Officials

Harriet Pruette - Mayor

Richard Arthur - Vice Mayor

John Jolly - Councilor

Kara Tucker - Councilor

Scott Wiley - Councilor

City Council Appointed Officials

Andrew E. Hyatt - City Manager

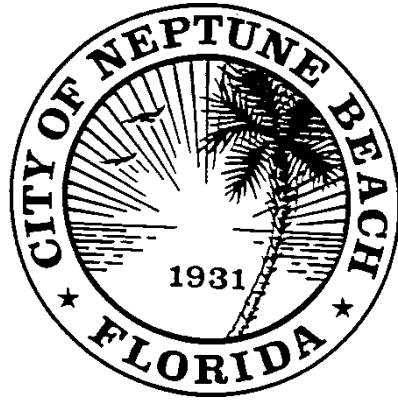
Patrick Krechowski - City Attorney

Amanda Askew - Acting City Clerk

Appointed by City Manager/Confirmed by City Council

Richard J. Pike - Director of Public Safety

Steven L. Ramsey - Director of Finance



Financial Section

Annual Financial Report

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibilities for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309

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

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of the City of Jacksonville grant funds per Ordinance Code Chapter 118.205(e), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and the schedule of expenditures of the City of Jacksonville grant funds are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reports Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 5, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



May 5, 2017
Gainesville, Florida

Management's Discussion and Analysis

(Unaudited)

As management of the City of Neptune Beach, we offer readers of the City of Neptune Beach's financial statements this narrative overview and analysis of the financial activities of the City of Neptune Beach for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities at the close of fiscal year 2016 by \$16,189,761 (net position). The net position of the City increased by \$1,741,001.
- At September 30, 2016, the City's governmental funds reported combined ending fund balances of \$3,530,554, an increase of \$295,084 in comparison with the prior year.
- At September 30, 2016, unassigned fund balance for the General Fund was \$2,298,394 or 48.9% of total General Fund expenditures.
- General fund revenues increased by \$133,814 or 2.9% above the prior fiscal year due an increase in operating receipts.
- The City's outstanding notes payable and bonded debt decreased by \$972,378 or 13.2% during fiscal year 2016. This decrease was due to normal debt payments made during the fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Management's Discussion and Analysis

(Continued)

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Proprietary Funds

The City of Neptune Beach maintains three proprietary or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The City of Neptune Beach uses enterprise funds to account for its water and sewer fund, the sanitation fund, and the stormwater fund.

Proprietary funds provide the same type information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, considered to be major funds of the City of Neptune Beach and the Stormwater Fund, reported as a non-major fund. The basic proprietary fund financial statements can be found on pages 17 - 19 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City (e.g., pension beneficiaries). Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary financial statements can be found on pages 20 - 21 of this report.

Management's Discussion and Analysis (Continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 51 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide the Police Officers pension benefits and other post-employment benefits. Required supplementary information can be found on pages 52-58 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on the pension. Combining and individual fund statements and schedules can be found on pages 59-72 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$16,189,761 at the close of the fiscal year ended September 30, 2016.

City of Neptune Beach's Net Position September 30, 2016 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 3,716	\$ 3,495	\$ 4,606	\$ 5,358	\$ 8,322	\$ 8,853
Capital Assets	4,077	4,176	12,195	11,584	16,272	15,760
Total Assets	<u>7,793</u>	<u>7,671</u>	<u>16,801</u>	<u>16,942</u>	<u>24,594</u>	<u>24,613</u>
Deferred Outflows	944	295	0	0	944	295
Long-term Liabilities Outstanding	1,948	1,481	5,720	6,760	7,668	8,241
Other Liabilities	378	303	1,302	1,790	1,680	2,093
Total Liabilities	<u>2,326</u>	<u>1,784</u>	<u>7,022</u>	<u>8,550</u>	<u>9,348</u>	<u>10,334</u>
Deferred Inflows	0	125	0	0	0	125
Net Position						
Net Invested in Capital Assets	4,077	4,175	7,363	6,413	11,440	10,588
Restricted	1,091	916	452	398	1,543	1,314
Unrestricted	1,243	966	1,964	1,581	3,207	2,547
Total Net Position	<u>\$ 6,411</u>	<u>\$ 6,057</u>	<u>\$ 9,779</u>	<u>\$ 8,392</u>	<u>\$ 16,190</u>	<u>\$14,449</u>

The largest portion of the City's net position \$11,440,527 (70.7%) reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

(Continued)

Government-wide Financial Analysis (Concluded)

A portion of the City's net position, \$1,542,650 (9.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net position, \$3,206,584 represents unrestricted net position. At the end of the current fiscal year, the City is able to report positive balances in total net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The 2016 governmental activities unrestricted net position balance increased \$276,933 compared to the prior. The increase was chiefly due to increases in cash.

Following is a summary of activities for the City during the fiscal years ended September 30, 2016 and 2015.

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges of Services	\$ 436	\$ 421	\$ 6,026	\$ 5,791	\$ 6,462	\$ 6,212
Operating Grants and Contributions	816	804	0	0	816	804
Capital Grants and Contributions	33	32	0	0	33	32
General Revenues:						
Property Taxes	2,286	2,169	0	0	2,286	2,169
Sales and Use Taxes	730	712	0	0	730	712
Franchise and Utility Taxes	593	618	0	0	593	618
Discretionary Sales Surtax	448	428	0	0	448	428
State Revenue Sharing	182	181	0	0	182	181
Interest Revenue	9	4	8	3	17	7
Miscellaneous	156	125	0	53	156	178
Total Revenues	5,689	5,494	6,034	5,847	11,723	11,341
Expenses						
General Government	989	977	0	0	989	977
Public Safety	2,842	2,790	0	0	2,842	2,790
Public Works	1,170	1,164	0	0	1,170	1,164
Culture and Recreation	469	442	0	0	469	442
Interest on L-T Debt	0	0	0	0	0	0
Water and Sewer	0	0	3,073	3,045	3,073	3,045
Sanitation	0	0	1,205	1,444	1,205	1,444
Stormwater	0	0	234	279	234	279
Total Expenses	5,470	5,373	4,512	4,768	9,982	10,141
Net Increase (Decrease) in Net Position Before Transfers	219	121	1,522	1,079	1,741	1,200
Transfers	135	75	(135)	(75)	0	0
Increase (Decrease) in Net Position	354	196	1,387	1,004	1,741	1,200
Net Position – Beginning	6,057	5,861	8,392	7,388	14,449	13,249
Net Position – Ending	\$ 6,411	\$ 6,057	\$ 9,779	\$ 8,392	\$ 16,190	\$ 14,449

Management's Discussion and Analysis

(Continued)

Governmental Activities

Governmental activities increased the City of Neptune Beach's net position by \$354,109 in the Governmental Funds, accounting for a 5.8% increase in governmental net position. This increase was due to increased revenues received by the City.

Business-type Activities

Business-type activities increased the City of Neptune Beach's net position by \$1,386,892, accounting for a 16.5% increase in business-type activities net position. This increase was due to increased rate charges in user fees and a slight decrease in expenditures.

Overall Financial Position

The overall financial position of the City of Neptune Beach has improved by \$1,741,001, thereby accounting for a total increase in net position of 12.0%. This was attributable to the explanations given above for Governmental activities and Business-type activities.

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the City of Neptune Beach's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of fiscal year 2016, the City's governmental funds reported combined ending fund balances of \$3,530,554, an increase of \$295,084 in comparison with the prior year. This increase is consistent with the prior year.

The General Fund is the chief operating fund of the City of Neptune Beach. At the end of fiscal year 2016, unassigned fund balance of the General Fund was \$2,298,394. Unreserved fund balance represents 48.8% of the total General Fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$59,598 during the current fiscal year.

Non-major Governmental Funds consisting of special revenue funds have a combined fund balance of \$1,085,639. The net increase in fund balance during the current year in Non-major governmental funds was \$235,486. This increase was largely due to increased receipts in the special revenue funds.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position in the Proprietary Funds at the end of the year amounted to \$1,964,005.

General Fund Budgetary Highlights

The major difference in the amount of \$83,741 between the final budget and the actual expenditures in the General Fund was due to anticipated costs that were not incurred amongst the various departments.

Management's Discussion and Analysis

(Continued)

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$16,272,309 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 3.2%.

City of Neptune Beach's Capital Assets

(Net of Depreciation)

(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital Assets not Being Depreciated, Land, and Construction in Progress	\$ 44	\$ 38	\$ 1,101	\$ 307	\$ 1,145	\$ 345
Buildings and Other Improvements	3,690	3,817	10,888	11,194	14,578	15,011
Equipment	343	321	206	83	549	404
Total	\$ 4,077	\$ 4,176	\$ 12,195	\$ 11,584	\$ 16,272	\$ 15,760

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

Long-term Debt

At the end of fiscal year 2016, the City of Neptune Beach had total bonded debt outstanding of \$6,376,410. The City's debt represents bonds, Florida Department of Environmental Protection loans, and Bank loans secured solely by specified revenue sources (i.e., revenue bonds).

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue Bonds	0	0	740	915	740	915
Sewer Line Loan	0	0	3,260	3,270	3,260	3,270
Refunding Loan	0	0	76	526	76	526
State Revolving Fund Loans	0	0	2,300	2,638	2,300	2,638
Total	\$ 0	\$ 0	\$ 6,376	\$ 7,349	\$ 6,376	\$ 7,349

Management's Discussion and Analysis *(Concluded)*

Long-term Debt (Concluded)

The City of Neptune Beach's total debt decreased by \$972,378 (13.2%) during the current fiscal year. This decrease was due to normal debt payments made during the fiscal year.

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

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

Economic Factors and Next Year's Budgets and Rates

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

Other Economic Factors:

- The unemployment rate for the municipal service area is 4.8%. This compares favorably with the state's average unemployment rate and the national average unemployment rate.
- Inflationary trends in the region compare favorably to national indices.

Budget Highlights:

- The City adopted the ad valorem tax rate of 3.3656 mills for its millage rate this budget year. The prior year rate was 3.3656 mills.

Requests for Information

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



Basic Financial Statements

Annual Financial Report

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,196,611	\$ 1,832,782	\$ 5,029,393
Equity in Pooled Investments	138,905	0	138,905
Accounts Receivable	0	504,703	504,703
Due from Other Governments	332,162	0	332,162
Prepaid Expenses	48,371	21,434	69,805
Restricted Assets:			
Temporarily Restricted:			
Equity in Pooled Cash and Cash Equivalents	0	2,246,711	2,246,711
Capital Assets:			
Land	37,861	0	37,861
Construction in Progress	6,800	1,100,997	1,107,797
Buildings	4,279,516	3,318,250	7,597,766
Improvements Other than Buildings	2,684,848	19,100,988	21,785,836
Equipment	3,071,857	3,590,925	6,662,782
(Accumulated Depreciation)	(6,003,630)	(14,916,103)	(20,919,733)
Total Assets	<u>7,793,301</u>	<u>16,800,687</u>	<u>24,593,988</u>
Deferred Outflows of Resources			
Pension Related	943,493	0	943,493
Liabilities			
Accounts Payable and Accrued Liabilities	104,271	191,020	295,291
Unearned Revenue	56,684	1,551	58,235
Deposits	19,286	0	19,286
Due to Other Governments	5,254	0	5,254
Compensated Absences - Current	192,216	87,805	280,021
Payable from Restricted Assets:			
Deposits	0	250,618	250,618
Accrued Interest Payable	0	11,481	11,481
Current Portion of Bonds Payable	0	180,000	180,000
Current Portion of Loans Payable	0	579,111	579,111
Noncurrent Liabilities:			
Compensated Absences - Noncurrent	159,829	44,827	204,656
Other Postemployment Benefit Obligation	107,270	58,230	165,500
Bonds Payable Long-term	0	560,000	560,000
Loans Payable Long-term	0	5,057,299	5,057,299
Net Pension Liability	1,680,968	0	1,680,968
Total Liabilities	<u>2,325,778</u>	<u>7,021,942</u>	<u>9,347,720</u>
Net Position			
Net Investment in Capital Assets	4,077,252	7,363,275	11,440,527
Restricted for:			
Capital Projects	1,004,076	0	1,004,076
Debt Service	0	54,566	54,566
Renewal and Replacement	0	396,899	396,899
Other Purposes	87,109	0	87,109
Unrestricted	1,242,579	1,964,005	3,206,584
Total Net Position	<u>\$ 6,411,016</u>	<u>\$ 9,778,745</u>	<u>\$ 16,189,761</u>

See accompanying notes.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 988,697	\$ 240,597	\$ 10,742	\$ 0	\$ (737,358)	\$ 0	\$ (737,358)
Public Safety	2,842,089	70,203	191,074	33,198	(2,547,614)	0	(2,547,614)
Public Works	1,170,134	0	352,466	0	(817,668)	0	(817,668)
Culture and Recreation	469,079	125,286	262,109	0	(81,684)	0	(81,684)
Total Governmental Activities	5,469,999	436,086	816,391	33,198	(4,184,324)	0	(4,184,324)
Business-type Activities:							
Water and Sewer	3,073,307	4,471,557	0	0	0	1,398,250	1,398,250
Sanitation	1,204,966	1,260,109	0	0	0	55,143	55,143
Storm Water Utility	233,928	294,767	0	0	0	60,839	60,839
Total Business-type Activities	4,512,201	6,026,433	0	0	0	1,514,232	1,514,232
Total Primary Government	\$ 9,982,200	\$ 6,462,519	\$ 816,391	\$ 33,198	(4,184,324)	1,514,232	(2,670,092)
General Revenues							
Taxes:							
Property Taxes					2,286,100	0	2,286,100
Sales and Use Taxes					729,793	0	729,793
Franchise and Utility Taxes					592,495	0	592,495
State Revenue Sharing					182,008	0	182,008
Discretionary Sales Surtax					448,447	0	448,447
Interest Revenue					9,053	7,660	16,713
Miscellaneous					141,193	0	141,193
Gain of Sale of Fixed Assets					14,344	0	14,344
Transfers					135,000	(135,000)	0
Total General Revenues and Transfers					4,538,433	(127,340)	4,411,093
Change in Net Position					354,109	1,386,892	1,741,001
Net Position, Beginning of Year					6,056,907	8,391,853	14,448,760
Net Position, End of Year					\$ 6,411,016	\$ 9,778,745	\$ 16,189,761

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,154,945	\$ 1,041,666	\$ 3,196,611
Equity in Pooled Investments	138,905	0	138,905
Due from Other Governments	256,390	75,772	332,162
Due from Other Funds	22,924	0	22,924
Prepaid Items	48,371	0	48,371
Total Assets	2,621,535	1,117,438	3,738,973
Liabilities and Fund Balances			
Liabilities			
Accounts Payable and Accrued Liabilities	95,396	8,875	104,271
Due to Other Funds	0	22,924	22,924
Due to Other Governments	5,254	0	5,254
Unearned Revenue	56,684	0	56,684
Deposits	19,286	0	19,286
Total Liabilities	176,620	31,799	208,419
Fund Balances			
Nonspendable:			
Prepaid Expenditures	48,371	0	48,371
Restricted for:			
Public Safety	0	22,589	22,589
Capital Outlay	0	1,004,076	1,004,076
Other	0	64,520	64,520
Jarboe Park	10,000	0	10,000
Assigned for:			
Subsequent Year's Budget	88,150	0	88,150
Unassigned	2,298,394	(5,546)	2,292,848
Total Fund Balances	2,444,915	1,085,639	3,530,554
Total Liabilities and Fund Balances	\$ 2,621,535	\$ 1,117,438	\$ 3,738,973

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

Fund Balances - Total Governmental Funds	\$	3,530,554
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
 Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet:		
Capital Assets - Net		4,077,252
 Certain pension related amounts are being deferred and amortized over a period of years or are being deferred as contributions to the pension plan made after the measurement date:		
Deferred Outflows Related to Pension		943,493
 Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Net Pension Liability		(1,680,968)
Net Postemployment Benefit Obligation		(107,270)
Compensated Absences		(352,045)
		(2,140,283)
Net Position of Governmental Activities	\$	6,411,016
		6,411,016

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,878,595	\$ 737,378	\$ 3,615,973
Charges for Services	6,551	69,601	76,152
Licenses and Permits	234,360	0	234,360
Intergovernmental	1,375,945	104,369	1,480,314
Fines and Forfeitures	45,838	24,053	69,891
Investment Income	6,631	2,422	9,053
Miscellaneous	125,336	63,685	189,021
Total Revenues	<u>4,673,256</u>	<u>1,001,508</u>	<u>5,674,764</u>
Expenditures			
Current:			
General Government	933,072	0	933,072
Public Safety	2,902,668	10,356	2,913,024
Public Works	500,460	529,259	1,029,719
Culture and Recreation	241,116	197,437	438,553
Capital Outlay	123,828	90,828	214,656
(Total Expenditures)	<u>(4,701,144)</u>	<u>(827,880)</u>	<u>(5,529,024)</u>
(Deficiency) Excess of Revenues (Under) Over Expenditures	<u>(27,888)</u>	<u>173,628</u>	<u>145,740</u>
Other Financing Sources (Uses)			
Proceeds on Sale of Capital Assets	14,344	0	14,344
Transfers in	85,000	71,858	156,858
Transfers (out)	(11,858)	(10,000)	(21,858)
Total Other Financing Sources (Uses)	<u>87,486</u>	<u>61,858</u>	<u>149,344</u>
Net Changes in Fund Balances	59,598	235,486	295,084
Fund Balances, Beginning of Year	<u>2,385,317</u>	<u>850,153</u>	<u>3,235,470</u>
Fund Balances, End of Year	<u>\$ 2,444,915</u>	<u>\$ 1,085,639</u>	<u>\$ 3,530,554</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds \$ 295,084

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

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

Expenditures for Capital Assets	\$ 214,656	
(Current Year Depreciation)	<u>(312,938)</u>	(98,282)

The changes in net pension liability and pension related deferred outflows and inflows of resources result in an adjustment to pension expense in the statement of activities, but not in the governmental fund statements.

188,516

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

Change in Compensated Absences Payable	(8,993)	
Change in Other Postemployment Benefits	<u>(22,216)</u>	<u>(31,209)</u>

Change in Net Position of Governmental Activities \$ 354,109

See accompanying notes.

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater Utility	Total
Assets				
Current Assets:				
Equity in Pooled Cash and Cash				
Equivalents	\$ 1,199,961	\$ 371,103	\$ 261,718	\$ 1,832,782
Accounts Receivable, Net of Allowance	374,900	103,632	26,171	504,703
Prepaid Expenses	17,125	2,762	1,547	21,434
Total Current Assets	1,591,986	477,497	289,436	2,358,919
Noncurrent Assets:				
Equity in Pooled Restricted Cash and Cash Equivalents	2,246,711	0	0	2,246,711
Capital Assets:				
Buildings	3,318,250	0	0	3,318,250
Improvements Other than Buildings	19,056,886	0	44,102	19,100,988
Equipment	2,737,372	301,455	552,098	3,590,925
Construction in Progress	1,100,011	0	986	1,100,997
(Less Accumulated Depreciation)	(14,179,525)	(301,455)	(435,123)	(14,916,103)
Total Capital Assets	12,032,994	0	162,063	12,195,057
Total Noncurrent Assets	14,279,705	0	162,063	14,441,768
Total Assets	15,871,691	477,497	451,499	16,800,687
Liabilities				
Current Liabilities from Unrestricted Assets:				
Accounts Payable and Accrued Liabilities	105,834	77,347	7,839	191,020
Unearned Revenues	1,551	0	0	1,551
Compensated Absences	75,166	0	12,639	87,805
Total Current Liabilities Payable from Unrestricted Assets	182,551	77,347	20,478	280,376
Current Liabilities Payable from Restricted Assets:				
Deposits	250,618	0	0	250,618
Current Portion of Bonds Payable	180,000	0	0	180,000
Current Portion of Loans Payable	579,111	0	0	579,111
Accrued Interest Payable	11,481	0	0	11,481
Total Current Liabilities Payable from Restricted Assets	1,021,210	0	0	1,021,210
Noncurrent Liabilities:				
Compensated Absences	38,374	0	6,453	44,827
Bonds Payable	560,000	0	0	560,000
Loans Payable	5,057,299	0	0	5,057,299
Other Postemployment Benefits	49,035	5,316	3,879	58,230
Total Noncurrent Liabilities	5,704,708	5,316	10,332	5,720,356
Total Liabilities	6,908,469	82,663	30,810	7,021,942
Net Position				
Net Investment in Capital Assets	7,201,212	0	162,063	7,363,275
Restricted for:				
Debt Service	54,566	0	0	54,566
Renewal and Replacement	396,899	0	0	396,899
Unrestricted	1,310,545	394,834	258,626	1,964,005
Total Net Position	\$ 8,963,222	\$ 394,834	\$ 420,689	\$ 9,778,745

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater Utility	Total
Operating Revenue				
Charges for Services	\$ 4,418,829	\$ 1,260,109	\$ 294,767	\$ 5,973,705
Connection and Impact Fees	52,728	0	0	52,728
Total Operating Revenues	4,471,557	1,260,109	294,767	6,026,433
Operating Expenses				
Personal Services	1,514,295	161,446	123,017	1,798,758
Utilities	243,527	0	0	243,527
Supplies and Materials	123,822	9,023	8,172	141,017
Contractual Services	252,830	1,001,503	18,137	1,272,470
Depreciation and Amortization	419,293	0	40,895	460,188
Repairs and Maintenance	182,872	6,656	34,970	224,498
Insurance	71,575	11,420	6,781	89,776
Other Operating	49,870	14,918	1,956	66,744
(Total Operating Expenses)	(2,858,084)	(1,204,966)	(233,928)	(4,296,978)
Operating Income	1,613,473	55,143	60,839	1,729,455
Nonoperating Revenues (Expenses)				
Interest Revenue	5,474	1,719	467	7,660
Interest/Amortization Expense	(215,223)	0	0	(215,223)
Total Nonoperating Revenues (Expenses)	(209,749)	1,719	467	(207,563)
Income Before Operating Transfers	1,403,724	56,862	61,306	1,521,892
Transfers (out)	(75,000)	(60,000)	0	(135,000)
Change in Net Position	1,328,724	(3,138)	61,306	1,386,892
Total Net Position, Beginning of Year	7,634,498	397,972	359,383	8,391,853
Total Net Position, End of Year	\$ 8,963,222	\$ 394,834	\$ 420,689	\$ 9,778,745

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA**

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater Utility	Total
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 4,449,508	\$ 1,270,528	\$ 297,281	\$ 6,017,317
Cash Paid to Suppliers	(1,108,125)	(1,397,862)	(70,428)	(2,576,415)
Cash Paid to Employees	(1,517,912)	(161,446)	(119,104)	(1,798,462)
Net Cash Provided by (Used in) Operating Activities	1,823,471	(288,780)	107,749	1,642,440
Cash Flows from Noncapital Financing Activities				
Transfers to Other Funds	(75,000)	(60,000)	0	(135,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	(75,000)	(60,000)	0	(135,000)
Cash Flows from Capital and Related Financing Activities				
Payments on Loans and Bonds	(972,378)	0	0	(972,378)
Interest Paid on Revenue Bonds	(216,526)	0	0	(216,526)
Acquisition and Construction of Capital Assets	(1,071,240)	0	0	(1,071,240)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(2,260,144)	0	0	(2,260,144)
Cash Flows from Investing Activities				
Interest Received	5,474	1,719	467	7,660
Net Cash Provided by (Used in) Investing Activities	5,474	1,719	467	7,660
Net Increase (Decrease) in Cash and Cash Equivalents	(506,199)	(347,061)	108,216	(745,044)
Cash and Cash Equivalents, Beginning of Year	3,952,871	718,164	153,502	4,824,537
Cash and Cash Equivalents, End of Year	\$ 3,446,672	\$ 371,103	\$ 261,718	\$ 4,079,493
<u>Reconciliation of Cash and Cash Equivalents to Statement of Net Position</u>				
Equity in Pooled Cash and Investments	\$ 1,199,961	\$ 371,103	\$ 261,718	\$ 1,832,782
Restricted Equity in Pooled Cash and Investments	2,246,711	0	0	2,246,711
Total Cash and Cash Equivalents	\$ 3,446,672	\$ 371,103	\$ 261,718	\$ 4,079,493
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u>				
Operating Income (Loss)	\$ 1,613,473	\$ 55,143	\$ 60,839	\$ 1,729,455
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation and Amortization	419,293	0	40,895	460,188
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):				
Accounts Receivable	(6,172)	10,419	2,514	6,761
Accounts Payable	(184,131)	(354,423)	(1,373)	(539,927)
Compensated Absences	(3,617)	0	3,913	296
Unearned Revenues	1,551	0	0	1,551
Prepaid Expenses	502	81	45	628
Customer Deposits	(17,428)	0	916	(16,512)
Total Adjustments	209,998	(343,923)	46,910	(87,015)
Net Cash Provided by (Used in) Operating Activities	\$ 1,823,471	\$ (288,780)	\$ 107,749	\$ 1,642,440

See accompanying notes.

**STATEMENT OF NET POSITION
 FIDUCIARY FUND
 SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA**

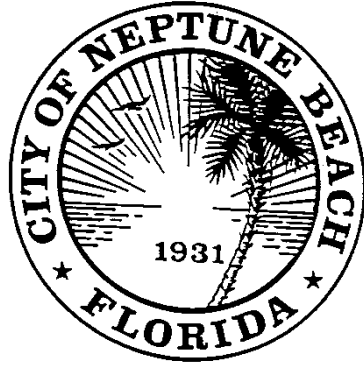
	Police Officers' Plan
Assets	
Cash and Short-term Investments	\$ 96,435
Contributions Receivable	14,489
Accrued Interest Receivable	31,973
Prepaid Expenses	2,430
Investments:	
U.S. Government Obligations	819,322
Federal Agency Guaranteed Securities	33,739
Corporate Bonds	1,897,215
Electronically Traded Funds (ETFs)	1,074,478
Mutual Funds	750,935
Common Equity Securities	3,659,137
Total Investments	8,234,826
Total Assets	8,380,153
 Liabilities	 0
 Total Liabilities	 0
 Net Position	
Held in Trust for Pension Benefits	\$ 8,380,153

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA**

	<u>Police Officers' Plan</u>
Additions	
Contributions:	
Employees	\$ 94,249
Employer	349,485
State of Florida	59,112
Total Contributions	<u>502,846</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	254,428
Interest and Dividends	233,931
Miscellaneous Income	1,103
Total Investment Earnings	<u>489,462</u>
(Less Investment Expense)	<u>(57,931)</u>
Net Investment Earnings	<u>431,531</u>
Total Additions	<u>934,377</u>
Deductions	
Benefit Payments	412,301
Lump Sum DROP Distributions	104,802
Administrative Expenses	30,811
(Total Deductions)	<u>(547,914)</u>
Change in Net Position	386,463
Net Position, Beginning of Year	<u>7,993,690</u>
Net Position, End of Year	<u><u>\$ 8,380,153</u></u>

See accompanying notes.



Notes to Financial Statements

Annual Financial Report

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Basic Financial Statements

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basic Financial Statements (Concluded)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

■ **Major Governmental Fund Types**

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

■ **Nonmajor Governmental Fund Types**

- Special Revenue Funds—These funds account for specific revenue sources that are restricted by law or administrative action to expenditures for specific purposes. Nonmajor special revenue funds include the Police Education Fund, Community Development Block Grant Fund, Convention Development Tax Fund, Forfeiture Proceeds Fund, Street Improvements Fund, Local Option Gas Tax Fund, Radio Communications Fund, Better Jacksonville Half-cent Tax Fund, and Holiday Décor Fund.

■ **Capital Projects Funds**

These funds account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The City has one Capital Projects Fund.

■ **Proprietary Fund Types**

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

■ **Fiduciary Fund Types**

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

■ **Fund Balance Classifications**

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

- Nonspendable Fund Balance—Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

■ **Fund Balance Classifications (Concluded)**

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

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

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

Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General and the following non-major funds: Police Education, Community Development Block Grant, Convention Development Tax, Forfeiture Proceeds, Street Improvements, Local Option Gas Tax, Radio Communications, Better Jacksonville Half-cent Tax, Holiday Decor, and a Capital Projects Fund. The legally adopted budgets are prepared on a basis consistent with GAAP.

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Concluded)

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

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

Cash and Cash Equivalents

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

Investments

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

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments (Concluded)

The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes), which allowed the State Board of Administration to establish a pooled investment account (SBA Investment Pool). The SBA administers and provides regulatory oversight over Florida PRIME. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares. Separate financial reports for the SBA investment can be obtained from the Florida State Board of Administration, 1801 Hermitage Blvd., Tallahassee, Florida 32308.

Investments within the Police Officers' Plan Fund made through financial brokers are held with trustees and are stated at fair value as determined in an active market. All foreign securities held by the pension plan are traded in U.S. Dollars.

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

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

Receivable and Interfund Obligations

Receivables consist of trade receivables, amounts due from other governments, and interest receivable and are recorded net of allowance for doubtful accounts. The City, as of September 30, 2016, has provided an allowance for doubtful accounts due to aged receivables in the proprietary funds that the City has reason to believe will not be collected.

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets

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

Capital Assets

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

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

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

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

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

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

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

Unearned Revenue

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Long-term Obligations

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

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

Compensated Absences

City employees are entitled to certain compensated absences (personal leave) based on their length of employment. All leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported.

Pension Plans

The City defined benefit plan investments are recorded at market value, and it is the City's policy to record pension costs in the period salaries are earned.

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

Net Position

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Property Taxes

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

Details of the tax calendar are presented below:

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

Use of Estimates

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

New Accounting Pronouncements

During the year ended September 30, 2016, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement clarifies the definition of fair value as an exit price. This Statement also defines an investment as a security or other asset that: (a) a government holds primarily to generate income or profit and (b) has a present service capacity based solely on that asset's ability to generate cash or to generate cash when sold. Governmental entities are required to record investments at fair value unless an exception applies and disclose the fair value measurement and hierarchy.

During the year ended September 30, 2016, the City also implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investments pools and pool participants. This Statement allows qualifying external investment pools to elect to measure all investments at amortized cost if the pool meets certain criteria.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments

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

At September 30, 2016, the cash deposits and investments included the following:

Investments Controlled by City:	
SBA Investment Pool	\$ 18,815
Certificate of Deposit	<u>120,090</u>
Total Investments Controlled by City	<u>138,905</u>
Cash:	
Cash Deposits	5,027,793
Restricted Cash	2,246,711
Cash on Hand	<u>1,600</u>
Total Cash	<u>7,276,104</u>
Total Cash and Investments	<u>\$ 7,415,009</u>

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

Restricted Cash

Restricted cash in the proprietary funds at September 30, 2016, represent monies required to be restricted for debt service and construction under terms of outstanding bond agreements, and impact fees restricted to water and sewer system uses. Restricted cash for the proprietary funds at September 30, 2016, were restricted for the following purposes:

Proprietary Funds	
Construction Loans	\$ 1,544,628
Debt Service	54,566
Customer Deposits	250,618
Impact Fees	<u>396,899</u>
Total Restricted Cash	<u>\$ 2,246,711</u>

Risk

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments (Continued)

Credit Risk

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

	QUALITY RATINGS										
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-/BB+	Unrated
Investments Controlled by the City:											
SBA Investment Pool	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,815
Pension Plan Investments:											
U. S. Government and											
Federal Agency Securities	0	819,322	0	0	0	0	0	0	0	0	33,739
Corporate Bonds	125,180	0	79,681	139,746	144,382	81,372	294,314	647,134	304,729	80,677	0
ETFs	0	0	0	0	0	0	0	0	0	0	1,074,478
Real Estate Inv Trust	0	0	0	0	0	0	0	0	0	0	117,401
Mutual Funds	0	0	0	0	0	0	0	0	0	0	750,935
Common Equity Securities	0	0	0	0	0	0	0	0	0	0	3,541,736
Total Pension Plan Investments	\$ 125,180	\$819,322	\$ 79,681	\$139,746	\$ 144,382	\$ 81,372	\$ 294,314	\$ 647,134	\$ 304,729	\$ 80,677	\$5,518,289

Custodial Credit Risk

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

At September 30, 2016, Police Officers' Plan Fund investments were uninsured and collateral was held by the pledging bank's trust department and was not in the City's name.

Concentration of Credit Risk

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

The City's Police Officers' Plan Fund had no single investments of more than 5% of the total net assets of the Plan at September 30, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. All foreign securities held by the pension plan are traded in U.S. dollars.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments (Continued)

Interest Rate Risk

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

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

	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Investment Type:					
Investments Controlled by the City:					
SBA Investment Pool	\$ 18,815	\$ 18,815	\$ 0	\$ 0	\$ 0
Total Investments Controlled by the City	<u>18,815</u>	<u>18,815</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pension Plan Investments:					
U.S. Government and Agency Securities	853,061	25,078	260,265	535,700	32,018
Corporate Bonds	1,897,215	0	1,506,514	390,701	0
ETFs	1,074,478	0	0	0	0
Real Estate Inv Trust	117,401	0	0	0	0
Mutual Funds	750,935	0	0	0	0
Equity Securities	3,541,736	0	0	0	0
Total Pension Plan Investments	<u>8,234,826</u>	<u>25,078</u>	<u>1,766,779</u>	<u>926,401</u>	<u>32,018</u>
Total Investments	<u>\$ 8,253,641</u>	<u>\$ 43,893</u>	<u>\$ 1,766,779</u>	<u>\$ 926,401</u>	<u>\$ 32,018</u>

Fair Value Measurements

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- **Level 1 Inputs**—are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- **Level 2 Inputs**—are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3 Inputs**—are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

Note 2 - Cash Deposits and Investments (Concluded)

Fair Value Measurements (Concluded)

The Plan's investments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value in the hierarchy described above. The fair value measurements for the Plan's operating investments are as follows at September 30, 2016:

Investments by Fair Value Level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fiduciary Funds:				
U.S. Government Obligations	\$ 819,322	\$ 819,322	\$ 0	\$ 0
Mortgage/Asset Backed SEC	33,739	0	33,739	0
Corporate Bonds	1,689,639	0	1,689,639	0
Foreign BDS NTS DEB	207,576	0	207,576	0
Common Stock	3,444,864	3,444,864	0	0
Foreign Stock	96,872	96,872	0	0
ETF - Fixed Income	1,074,478	1,074,478	0	0
Mutual Funds - Equity	750,935	750,935	0	0
Unit Investment Trusts	117,401	117,401	0	0
Total Investments Measured at Fair Value	\$ 8,234,826	\$ 6,303,872	\$ 1,930,954	\$ 0

Investments Measured at the Net Asset Value (NAV)	Amount	Weighted Average Maturity	Credit Risk
Governmental Funds:			
State Board of Administration (SBA):			
Florida PRIME	\$ 18,815	50 days	AAAm

Equities and U.S. Government Securities are valued based on prices quoted in active markets and are categorized as Level 1 in the fair value hierarchy. Federal Agency Securities are valued using matrix pricing techniques that value securities based on their relationship to benchmark quoted prices. Corporate bonds are valued using quoted prices for similar securities in active markets and are categorized as Level 2 in the fair value hierarchy. The Florida PRIME SBA is valued at Net Asset Value (NAV), which is included in the information released by Florida PRIME annually in its own financial statements.

Note 3 - Receivables

Receivables at September 30, 2016, consist of the following:

	General Fund	Water and Sewer	Sanitation Fund	Storm-water Utility Fund	Pension Plan Trust Fund	Non-Major/Other Funds	Total Funds
Receivables							
Interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,973	\$ 0	\$ 31,973
Contributions Receivable	0	0	0	0	14,489	0	14,489
Accounts Receivable	0	441,059	121,920	29,079	0	0	592,058
Intergovernmental	256,390	0	0	0	0	75,772	332,162
Gross Receivables	256,390	441,059	121,920	29,079	46,462	75,772	970,682
Allowance	0	(66,159)	(18,288)	(2,908)	0	0	(87,355)
Net Receivables	\$ 256,390	\$ 374,900	\$ 103,632	\$ 26,171	\$ 46,462	\$ 75,772	\$ 883,327

Included in accounts receivable are \$277,082 earned but not billed as of September 30, 2016.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 4 - Interfund Transactions

Interfund receivables/payables represent temporary loans to cover other funds' deficits in pooled cash and investments. At September 30, 2016, the City had the following due to/from other funds:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General	\$ 22,924	\$ 0
Nonmajor Governmental	0	22,924
Total Governmental Funds	\$ 22,924	\$ 22,924

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

Following is a summary of interfund transfers for the year ended September 30, 2016:

	Transfers In		
	General	Nonmajor Funds	Total Funds
Transfers Out			
General Fund	\$ 0	\$ 11,858	\$ 11,858
Water and Sewer Fund	75,000	0	75,000
Sanitation	0	60,000	60,000
Nonmajor Governmental Funds	10,000	0	10,000
Total Transfers Out	\$ 85,000	\$ 71,858	\$ 156,858

Transfers in (out) during the fiscal year 2016, are as follows:

- \$10,000 was transferred from the Convention Development Tax Fund to the General Fund to cover expenses paid for by the General Fund.
- \$11,858 was transferred from the General Fund to the Community Development Block Grant Fund to provide additional funding for expenses in excess of revenues.
- \$75,000 was transferred from the Water and Sewer Fund to the General Fund to support the governmental activities.
- \$60,000 was transferred from the Sanitation Fund to the Capital Projects Fund to fund capital additions.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2016, is as follows:

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 37,861	\$ 0	\$ 0	\$ 37,861
Construction in Progress	<u>0</u>	<u>6,800</u>	<u>0</u>	<u>6,800</u>
Total Capital Assets, Not Being Depreciated				
Depreciated	<u>37,861</u>	<u>6,800</u>	<u>0</u>	<u>44,661</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,274,066	5,450	0	4,279,516
Improvements Other than Buildings	2,625,099	59,749	0	2,684,848
Equipment	<u>3,046,001</u>	<u>142,657</u>	<u>(116,801)</u>	<u>3,071,857</u>
Total Capital Assets, Being Depreciated	<u>9,945,166</u>	<u>207,856</u>	<u>(116,801)</u>	<u>10,036,221</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,504,718)	(67,188)	0	(1,571,906)
Improvements Other than Buildings	(1,577,385)	(125,063)	0	(1,702,448)
Equipment	<u>(2,725,390)</u>	<u>(120,687)</u>	<u>116,801</u>	<u>(2,729,276)</u>
Total Accumulated Depreciation	<u>(5,807,493)</u>	<u>(312,938)</u>	<u>116,801</u>	<u>(6,003,630)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,137,673</u>	<u>(105,082)</u>	<u>0</u>	<u>4,032,591</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 4,175,534</u>	<u>\$ (98,282)</u>	<u>\$ 0</u>	<u>\$ 4,077,252</u>
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 306,689	\$ 817,908	\$ (23,600)	\$ 1,100,997
Total Capital Assets, Not Being Depreciated				
Depreciated	<u>306,689</u>	<u>817,908</u>	<u>(23,600)</u>	<u>1,100,997</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,285,756	32,494	0	3,318,250
Improvements Other than Buildings	19,092,888	8,100	0	19,100,988
Equipment	<u>3,354,587</u>	<u>236,338</u>	<u>0</u>	<u>3,590,925</u>
Total Capital Assets, Being Depreciated	<u>25,733,231</u>	<u>276,932</u>	<u>0</u>	<u>26,010,163</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,285,756)	0	0	(3,285,756)
Improvements Other than Buildings	(7,898,428)	(347,083)	0	(8,245,511)
Equipment	<u>(3,271,731)</u>	<u>(113,105)</u>	<u>0</u>	<u>(3,384,836)</u>
Total Accumulated Depreciation	<u>(14,455,915)</u>	<u>(460,188)</u>	<u>0</u>	<u>(14,916,103)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,277,316</u>	<u>(183,256)</u>	<u>0</u>	<u>11,094,060</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 11,584,005</u>	<u>\$ 634,652</u>	<u>\$ (23,600)</u>	<u>\$ 12,195,057</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 5- Capital Assets (Concluded)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 36,835
Public Safety	114,867
Transportation	131,155
Culture and Recreation	<u>30,081</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 312,938</u>
Business-type Activities	
Water and Sewer	\$ 419,293
Stormwater Utility	<u>40,895</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 460,188</u>

Note 6 - Long-term Liabilities

At September 30, 2016, bonds and loans payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
Bonds		
Infrastructure Surtax Revenue Bonds, Series 2010A Dated January 12, 2010, for \$1,700,000, Due in Semi-annual Installments of Principal Ranging from \$65,000 to \$95,000 with an Interest Rate of 2.6%, Final Payment Due October 1, 2020	\$ 0	\$ 740,000
Loans		
Drinking Water State Revolving Fund Construction Loan #1, Due in Semi-annual Installments of Principal and Interest of \$6,350 through August 15, 2021, Bearing an Interest Rate of 3.52%	0	57,764
Drinking Water State Revolving Fund Construction Loan #2, Due in Semi-annual Installments of Principal and Interest of \$59,050 through February 15, 2023, Bearing an Interest Rate of 3.05%	0	691,500
Clean Water State Revolving Fund Construction Loan, Due in Semi-annual Installments of Principal and Interest of \$142,402 through August 15, 2022, Bearing an Interest Rate of 3.05%	0	1,550,834
Water and Sewer Revenue Note, Series 2013A Dated September 10, 2013, for \$3,280,000, Due in Semi-annual Installments of Principal Ranging from \$5,000 to \$325,000, Bearing an Interest Rate of 3.35%, Final Payment Due October 1, 2028	0	3,260,000
Water and Sewer Revenue Note, Series 2013B Dated September 10, 2013, for \$745,000, Due in Semi-annual Installments of Principle Ranging from \$80,000 to \$225,000, Bearing an Interest Rate of 0.99%, Final Payment Due October 1, 2017	<u>0</u>	<u>76,312</u>
Total	<u>\$ 0</u>	<u>\$ 6,376,410</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities (Continued)

Transactions for the year ended September 30, 2016, are summarized as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Governmental Activities					
Net Pension Liability	\$ 1,096,494	\$ 584,474	\$ 0	\$ 1,680,968	\$ 0
Other Postemployment Benefit Obligations	85,054	22,216	0	107,270	0
Compensated Absences	<u>343,052</u>	<u>201,208</u>	<u>(192,215)</u>	<u>352,045</u>	<u>192,216</u>
Governmental Activities – Long-term Liabilities	<u>\$ 1,524,600</u>	<u>\$ 807,898</u>	<u>\$ (192,215)</u>	<u>\$ 2,140,283</u>	<u>\$ 192,216</u>
	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Business-type Activities					
Bonds Payable:					
Infrastructure Surtax Revenue Bonds, 2010A	\$ 915,000	\$ 0	\$ (175,000)	\$ 740,000	\$ 180,000
Loans Payable:					
Drinking Water Loan #1	68,156	0	(10,392)	57,764	10,761
Drinking Water Loan #2	786,307	0	(94,807)	691,500	97,724
Clean Water Loan	1,783,013	0	(232,179)	1,550,834	239,314
Water and Sewer Revenue Note Series 2013A	3,270,000	0	(10,000)	3,260,000	155,000
Water and Sewer Revenue Note Series 2013B	<u>526,312</u>	<u>0</u>	<u>(450,000)</u>	<u>76,312</u>	<u>76,312</u>
Total Bonds and Loans Payable	<u>7,348,788</u>	<u>0</u>	<u>(972,378)</u>	<u>6,376,410</u>	<u>759,111</u>
Other Postemployment Benefit Obligations	47,546	10,684	0	58,230	0
Compensated Absences	<u>132,336</u>	<u>88,101</u>	<u>(87,805)</u>	<u>132,632</u>	<u>87,805</u>
Business-type Activities – Long-term Liabilities	<u>\$ 7,528,670</u>	<u>\$ 98,785</u>	<u>\$ (1,060,183)</u>	<u>\$ 6,567,272</u>	<u>\$ 846,916</u>

The annual requirements to amortize the bonds and loans payable outstanding as of September 30, 2016, are summarized as follows:

Business-type Activities

Fiscal Year Ending September 30	Infrastructure Surtax Revenue Bonds 2010A		Drinking Water State Revolving Fund Construction Loan #1	
	Principal	Interest	Principal	Interest
2017	\$ 180,000	\$ 18,487	\$ 10,761	\$ 1,939
2018	185,000	13,633	11,143	1,557
2019	185,000	8,778	11,539	1,162
2020	190,000	3,791	11,949	752
2021	<u>0</u>	<u>0</u>	<u>12,372</u>	<u>328</u>
Total	<u>\$ 740,000</u>	<u>\$ 44,689</u>	<u>\$ 57,764</u>	<u>\$ 5,738</u>

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

Note 6 - Long-term Liabilities (Continued)

Business-type Activities (Continued)

Fiscal Year Ending September 30	Drinking Water State Revolving Fund Construction Loan #2		Clean Water State Revolving Fund Construction Loan	
	Principal	Interest	Principal	Interest
	2017	\$ 97,724	\$ 20,376	\$ 239,314
2018	100,730	17,369	246,669	38,135
2019	103,830	14,269	254,250	30,554
2020	107,025	11,074	262,064	22,740
2021	110,318	7,781	270,118	14,686
2022-2026	171,873	5,275	278,419	6,385
Total	\$ 691,500	\$ 76,144	\$ 1,550,834	\$ 157,989

Fiscal Year Ending September 30	Water and Sewer Line Note Series 2013A		Water and Sewer Line Note Series 2013B	
	Principal	Interest	Principal	Interest
	2017	\$ 155,000	\$ 109,210	\$ 76,312
2018	240,000	104,017	0	0
2019	250,000	95,978	0	0
2020	255,000	87,603	0	0
2021	265,000	79,060	0	0
2022-2026	1,455,000	256,443	0	0
2027-2031	640,000	32,328	0	0
Total	\$ 3,260,000	\$ 764,639	\$ 76,312	\$ 803

Fiscal Year Ending September 30	Business-type Activities Totals	
	Principal	Interest
2017	\$ 759,111	\$ 196,304
2018	783,542	174,711
2019	804,619	150,741
2020	826,038	125,960
2021	657,808	101,855
2022-2026	1,905,292	268,103
2027-2031	640,000	32,328
Total	\$ 6,376,410	\$ 1,050,002

The final draw on the water construction project #1, which was funded by Drinking Water State Revolving Fund Construction Loan #1, was received on December 3, 2001. The full amount of the loan was \$174,183 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principal and interest on the loan is expected to require 1% of such revenues and is payable through 2021. At year-end, pledged future revenues totaled \$63,502, which was the amount of remaining principal and interest on the loan.

On May 7, 2001, the City was approved for a Drinking Water State Revolving Fund Construction Loan #2 for water construction project #2. The full amount of the loan was \$1,740,925 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 7% of such revenues and is payable through 2023. At year-end, pledged future revenues totaled \$767,644, which was the amount of remaining principal and interest on the loan.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities (Concluded)

Business-type Activities (Concluded)

On January 4, 1999, the City was approved for a Clean Water State Revolving Fund Construction Loan for sewer project construction. The full amount of the loan was \$4,428,579 and was used for sewer project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 16% of such revenues and is payable through 2022. At year-end, pledged future revenues totaled \$1,708,823, which was the amount of remaining principal and interest on the loan.

On November 12, 2010, the City issued Infrastructure Surtax Revenue Bonds Series A for \$1,700,000. The proceeds of the bond issue are to improve the sewage treatment plant and to replace in-ground infrastructure of the City's water and sewer utility system. The bonds are secured from the infrastructure surtax. Annual principle and interest on the bonds are expected to require 49% of such revenues and are payable through 2020. However, revenues of the Water and Sewer Fund will repay these bonds. At year-end, pledged future revenues totaled \$784,689, which was the amount of remaining principal and interest on the bonds.

On September 10, 2013, the City approved the Water and Sewer Revenue Note 2013A for \$3,280,000 and 2013B for \$745,000. The proceeds of the loans will be used for improvements to the water and sewer system and refunding the 2001 Water and Sewer Bond and paying related costs. Annual principle and interest on the notes are expected to require 20% of such revenues and are payable through 2028. At year-end, pledged future revenues totaled \$4,024,639, which was the amount of remaining principal and interest on the notes.

Note 7 - Employee Benefits

Police Officers' Retirement System

Plan Description

The City Police Officers' Retirement System (Police Officers' Plan Fund), a single-employer contributory defined benefit pension plan, was established pursuant to City Ordinance 1997-10, adopted September 2, 1997, by the City Council. Members of the Police Officers' Plan Fund include full-time state certified police officers. The funding method and determination of benefits payable are provided in various acts of the Florida Legislature (Act), which created funds, including subsequent amendments, thereto. The statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, state appropriations, and income from investment of accumulated funds. The Act also provides, should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the Police Officers' Plan Fund by an appropriation from current funds or from any revenue which may lawfully be used for said purposes in an amount sufficient to make up the deficiency. The Plan is administered by a Board of Trustees comprised of two council appointees, two members of the department elected by the membership, and a fifth member elected by the other four and appointed by the council. Investments are reported at fair value. The Police Officers' Plan Fund does not issue a stand-alone financial report. Plan membership in the Police Officers' Plan Fund as of October 1, 2016 and 2015, the date of the latest actuarial valuation, is as follows:

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Police Officers' Retirement System (Continued)
Plan Description (Concluded)

	October 1, 2016	October 1, 2015
Retirees and Beneficiaries		
Inactive Plan Members or Beneficiaries		
Currently Receiving Benefits	15	12
Inactive Plan Members Entitled to but not yet Receiving Benefits	6	6
Active Plan Members	16	15
Total Retirees and Beneficiaries	37	33

Plan Benefits

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

Police employees attaining the earlier of the age of 55 and 10 years of credited service or 25 years of credited service, are entitled to a retirement benefit equal to 2.75% times years of credited service times average final compensation (as defined by the Police Officers' Plan Fund). Employees who have attained age 50 and have completed 10 years of credited service are eligible for early retirement and may elect actuarially reduced benefits. Active employees who become disabled receive accrued benefits, but not less than 42% of average monthly earnings (service incurred disability). Employees who become disabled from a non-service incurrence must have 10 years of credited service to receive benefits. The benefits are payable for life or until full recovery is determined by the Board of Trustees. If an employee is terminated before completion of 10 years of continuous service, employee contributions, without interest, are refunded. If an employee terminates his employment either voluntarily or by lawful discharge after the completion of at least 10 years of continuous service, but before becoming eligible for retirement under the Police Officers' Plan Fund, the employee is entitled to a deferred vested benefit. The deferred vested benefit is based on monthly earnings and continuous service as of the termination date. There are no automatic or ad hoc post-retirement benefit increases.

The Police Officers' Plan Fund includes a Deferred Retirement Option Program (DROP) under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to five years. As of September 30, 2016, Police Officers' Plan Fund net pension included \$468,589 of DROP account balances.

Contributions

The City's contribution is actuarially determined. Based on the actuarial valuation performed as of October 1, 2014, the City's required contribution as a percentage of covered payroll was 35.51%. Plan members are required to contribute 8% of their annual covered salary.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Police Officers' Retirement System (Continued)

Measurement Date

The City has elected to use a measurement date to value the net pension liability and related deferred inflows and outflows as of September 30, 2015, one year prior to the reporting date. The City's Pension Plans do not issue separate financial statements. Therefore, the disclosures required by GASB 67 as of September 30, 2016, are also included below.

Net Pension Liability

The components of the net pension liability for the plan as of September 30, 2016, (reporting date) and for the year then ended, were as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at September 30, 2014	\$ 9,184,116	\$ 8,087,622	\$ 1,096,494
Changes for the Year:			
Service Cost	176,459	0	176,459
Interest	705,481	0	705,481
Change in Excess State Money	28,631	0	28,631
Differences Between Expected and Actual Experience	158,907	0	158,907
Contributions - Employer	0	359,489	(359,489)
Contributions - State	0	55,523	(55,523)
Contributions - Employee	0	78,060	(78,060)
Contributions - Buy Back	13,848	13,848	0
Net Investment Income	0	15,377	(15,377)
Benefit Payments, including Refunds of Contributions	(592,783)	(592,783)	0
Administrative Expenses	0	(23,445)	23,445
Net Changes	<u>490,543</u>	<u>(93,931)</u>	<u>584,474</u>
Balances at September 30, 2015	<u>\$ 9,674,659</u>	<u>\$ 7,993,691</u>	<u>\$ 1,680,968</u>

September 30, 2016

Total Pension Liability	\$ 10,162,443
Plan Net Position	<u>(8,374,923)</u>
Net Pension Liability	<u>\$ 1,787,520</u>

**Plan Net Position as a Percentage
of Total Pension Liability**

82.41%

For the year ended September 30, 2016, the City recognized total pension expense of \$339,205. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

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

Deferred Outflow of Resources

Difference between Expected and Actual Experience	\$ 127,126
Net Difference Between Projected and Actual Earnings	
On Pension Plan Investments	407,770
Contributions Made after the Measurement Date	408,597

Total Deferred Outflows of Resources \$ 943,493

Contributions made after the measurement date (shown above) will be recognized as a reduction of net pension liability in the fiscal year ending September 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Amount
2017	\$ 125,887
2018	125,887
2019	125,888
2020	157,234
Thereafter	0

Plan Investments

The Board of Trustees is responsible for establishing and amending the Plans' investment policies. The Plan's current investment policy gives the Board discretion to allocate assets with assistance of the Plan's investment consultant. The Board has established the following asset allocation targets for the total fund as of September 30, 2016: (1) Domestic Equities target is 45% with a suggested range of 35% - 55% using the S&P 500 benchmark index; (2) international equities target is 10% with a suggested range of 5% - 25% using the MSCI-EAFE benchmark index; and (3) broad market fixed income has a target of 45% with suggested ranges of 35% - 55% using the Barclays intermediate aggregate bond index as a benchmark index. The Plan did not hold investments in any one organization that represents 5% or more of the Plan's net position. The money-weighted rate of return on Plan investments, net of investment related expenses, was 5.39% and 0.19% for the years ended September 30, 2016 and 2015, respectively.

Actuarial Assumptions

The total pension liability as of September 30, 2016 and 2015 was determined, using the following actuarial assumptions, applied to all periods included in the measurement period:

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

Note 7 - Employee Benefits (Continued)

***Police Officers' Retirement System (Concluded)
Actuarial Assumptions (Concluded)***

As of September 30, 2016 Measurement Date

Inflation	2.50%
Salary Increases	Service Based
Discount Rate	7.75%
Investment Rate of Return, Including Inflation	7.75%
Mortality Rate Healthy Lives:	
Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB	
Male: RP2000 Generational, 10% Annuitant White Collar/ 90% Annuitant Blue Collar, Scale BB	
Mortality Rate Disabled Lives:	
Female: 60% RP2000 Disabled Female set forward 2 years/ 40% Annuitant White Collar with no set back, no projected scale	
Male: 60% RP2000 Disabled Male set back 4 years/ 40% Annuitant White Collar with no set back, no projected scale	

As of September 30, 2015 Measurement Date

Inflation	3.00%
Salary Increases	6.50%
Discount Rate	8.0%
Investment Rate of Return, Including Inflation	8.0%
Mortality	RP-2000 Combined Health Participant Mortality Table for Males and Females with No Projection

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plans investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return for each major asset class included in the pension plans' target asset allocation as of September 30, 2016 and 2015, are summarized in the following table:

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.0% for the reporting date of September 30, 2016 (measurement date of 2015) and 7.75% for the reporting date of September 30, 2017 (measurement date of 2016).

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

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

The following presents the net pension liability of the City, calculated using the discount rate of 8.00% (2015), 7.75% (2016), as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 7.00% (2015), 6.75% (2015) or 1-percentage-point higher 9.00% (2015), 8.75% (2016) than the current rate:

As of September 30, 2016:	1%	Current Discount Rate (7.75%)	1%
	Decrease (6.75%)		Increase (8.75%)
Net Pension Liability	\$ 2,919,133	\$ 1,787,520	\$ 843,233

As of September 30, 2015:	1%	Current Discount Rate (8%)	1%
	Decrease (7%)		Increase (9%)
Net Pension Liability	\$ 2,698,451	\$ 1,680,968	\$ 820,787

Changes of Assumptions:

For the measurement date of September 30, 2016, the following assumption changes have been made:

- Discount rate was reduced from 8.00% to 7.75%
- The salary increase assumption was changed from a flat 6.50% to a service-based table
- Assumed rates of termination were changed from age-based to a service-based table
- Assumed rates of normal retirement were changed from 100% at first eligibility to a table based on the number of years following first eligibility
- Assumed rates of early retirement were removed
- Assumed rates of mortality were changed from RP-2000 Combined Healthy Tables to the mortality tables for special risk employees used by the Florida Retirement System actuary in the July 1, 2015 actuarial valuation
- Inflation assumption rate was lowered from 3.00% to 2.50%

**NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA
 (Continued)**

Note 7 - Employee Benefits (Continued)

401(a) Money Purchase Plan

The City offers its general employees a single employer defined contribution plan (Defined Plan) created in accordance with Internal Revenue Code Section 401(a). The Defined Plan was established as of March 7, 1994, by adoption of the City Council through Ordinance No. 1994-4. The Defined Plan, available to all full time employees other than police, provides for an individual investment account. The Defined Plan is administered by the ICMA Retirement Corporation. The Defined Plan does not require a mandatory contribution from participants. The City is obligated to contribute 7% of gross pay for employees with less than ten years of service. Participants with at least ten years of service may elect to contribute up to 9% of gross pay, which the City is required to match. Employees are 100% vested in their personal contributions and receive 100% of investment earnings earned thereon. At September 30, 2016, 44 employees were participating in the Defined Plan.

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

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

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

Payroll for Covered Employees	\$ 2,728,057
Total City Payroll	3,993,007
Employer Contributions Required and Actually Made – 7% of Covered Payroll	190,964

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Other Postemployment Benefits (OPEB)

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

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

Funding Policy—The City Council is authorized to establish benefit levels and approve actuarial assumptions used in the determination of contribution levels. The City Council establishes the contributions requirements of plan members and the City. These contributions are neither mandated nor guaranteed. The retiree contributes the premium cost each month. Spouses are also eligible for medical coverage although the retiree pays the premium cost. Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single or single plus spouse. Currently, the City’s subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its pension plans. The City’s cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$52,300 for the year ended September 30, 2016. The ultimate implicit and explicit subsidies which are provided over time are financed directly by the general assets of the City, which are invested in short-term fixed income instruments according to its current investment policy. The City selected an interest discount rate of 4.0% per annum, which is the long-range expected return on such short-term fixed income instruments, to calculate present values and costs of the OPEB. This is consistent with GASB Statement No. 45 guidance. Significant actuarial assumptions and the methods used to estimate the OPEB liability are as follows.

Valuation Date	September 30, 2016
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Dollar Payment
Amortization Period	Up to 30 Years
Assumed Rate of Return on Investments	4.0%

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Other Postemployment Benefits (OPEB) (Continued)

Funding Policy—(Concluded)

Assumed Cost Trend Rates:

	Percent Increase
Medical Trend	7.5% per year (Decreases 0.5% per year until an ultimate rate of 5.00%)
General Inflation	2.6%

Actuarial Methods—The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Annual OPEB Cost and Net OPEB Obligation—The City’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City’s annual OPEB cost for the fiscal year ended September 30, 2016, was \$52,300.

The City’s annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2016, is as follows:

Annual Required City Contribution (ARC)	\$ 52,300
Interest on Plan Obligation	5,300
Adjustment to ARC	(5,300)
Annual Plan Retiree Costs	52,300
Contributions Made	(19,400)
Increase in Plan Obligations	32,900
Plan Obligations, Beginning of Year	132,600
Plan Obligations, End of Year	\$ 165,500

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

Note 7 - Employee Benefits (Concluded)

Other Postemployment Benefits (OPEB) (Concluded)

Annual OPEB Cost and Net OPEB Obligation—(Concluded)

The City's percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2016, is as follows:

<u>Year Ending September 30,</u>	<u>Annual OPEB Costs</u>	<u>City Contribution</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 52,300	\$ 19,400	37%	\$ 165,500
2015	31,400	14,400	46%	132,600
2014	30,300	12,700	42%	115,600

The 2016 contribution represented 37% of the annual required contribution. The actuarial valuation for the Plan was done as of September 30, 2016. As of September 30, 2016, the most recent actuarial valuation, the Plan was unfunded. The actuarial accrued liability for benefits was \$762,300 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$762,300. The covered payroll was \$3,173,800, and the ratio of the UAAL to the covered payroll was 24.02%.

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

Note 8 - Deferred Compensation Plan

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 9 - Interlocal Agreement

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

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

	Percentage
Atlantic Beach	33.06%
Jacksonville Beach	55.78%
Neptune Beach	11.16%
Total	100.00%

The City of Atlantic Beach provides all accounting and purchasing services for the Joint Venture. Repair and maintenance of the outfall lines and disposal of the facilities is shared by the participating municipalities in the percentages noted above. For the year ended September 30, 2016, the Joint Venture did not incur any expense for repairs or maintenance. During fiscal year 2016, the City made no contributions to the Joint Venture. The Joint Venture has no debt outstanding on applicable financial statements as of September 30, 2016.

Note 10 - Risk Management

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

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

Note 11 - Other Disclosures

Deficit Fund Balance

The following nonmajor governmental funds had a deficit fund balance as of September 30, 2016:

Community Development Block Grant Fund	\$	(1,285)
Local Option Gas Tax Fund		(4,261)

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Concluded)

Note 11 - Other Disclosures (Concluded)

Budget

During the year, the Community Development Block Grant Fund, the Police Education Fund, and the Forfeiture Proceeds Fund, had an excess of expenditures over the related budget of \$21,989, \$100, and \$8,510, respectively. The grant revenues and expenditures exceeded original expectations and resulted in no negative impact on the fund balance of the Community Development Block Grant Fund. The fines and forfeiture revenues and expenditures exceed original expectations and resulted in no negative impact on the fund balances of the Police Education Fund and the Forfeiture Proceeds Fund.

Subsequent Event

On October 7, 2016, Hurricane Matthew hit Neptune Beach, causing extensive damage to the City's beaches requiring substantial debris clean up. The cost of removing debris was approximately \$445,000. A portion of the costs to remove debris and repair damages are expected to be reimbursed by the Federal Emergency Management Agency (FEMA), however, these amounts are not yet known.



Required Supplementary Information

(Unaudited)

Annual Financial Report

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,871,033	\$ 2,871,033	\$ 2,878,595	\$ 7,562
Charges for Services	10,350	10,350	6,551	(3,799)
Licenses and Permits	191,500	191,500	234,360	42,860
Intergovernmental	1,266,838	1,310,591	1,375,945	65,354
Fines and Forfeitures	59,950	59,950	45,838	(14,112)
Investment Income	12,545	12,545	6,631	(5,914)
Miscellaneous	115,285	115,285	125,336	10,051
Total Revenues	4,527,501	4,571,254	4,673,256	102,002
Expenditures				
Current:				
Mayor and Council	31,985	31,985	31,735	250
City Manager	121,023	120,023	108,958	11,065
Finance Department	123,392	123,392	113,539	9,853
City Attorney	104,600	143,100	134,547	8,553
Building Department	272,393	272,393	266,651	5,742
City Clerk	101,592	109,092	107,930	1,162
Non-departmental	188,968	198,968	190,929	8,039
Police Department	2,925,059	2,958,812	2,934,110	24,702
Animal Control Division	62,790	62,790	53,331	9,459
Public Works Department	523,086	523,086	518,298	4,788
Lifeguards/Beach Cleanup	241,244	241,244	241,116	128
(Total Expenditures)	(4,696,132)	(4,784,885)	(4,701,144)	83,741
(Deficiency) of Revenues (Under) Expenditures	(168,631)	(213,631)	(27,888)	185,743
Other Financing Sources (Uses)				
Proceeds of Sale of Capital Assets	0	0	14,344	14,344
Transfers in	85,000	85,000	85,000	0
Transfers (out)	(11,858)	(11,858)	(11,858)	0
Total Other Financing Sources (Uses)	73,142	73,142	87,486	14,344
Net Change in Fund Balance	(95,489)	(140,489)	59,598	200,087
Fund Balances, Beginning of Year	120,000	165,000	2,385,317	2,220,317
Fund Balances, End of Year	\$ 24,511	\$ 24,511	\$ 2,444,915	\$ 2,420,404

**NOTE TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Note 1 - Budgetary Information

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

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability			
Service Cost	\$ 206,787	\$ 176,459	\$ 200,463
Interest	747,888	705,481	680,670
Changes in Excess State Money	(11,031)	28,631	26,003
Benefit Payments paid due from Excess State Money Reserve	43,251	0	0
Differences Between Expected and Actual Experience	(95,501)	158,907	0
Changes of Assumptions	104,045	13,848	0
Contributions - Buy Back	9,448	0	0
Benefit Payments, Including Refunds of Member Contributions	(517,103)	(592,783)	(501,198)
Net Change in Total Pension Liability	487,784	490,543	405,938
Total Pension Liability - Beginning	9,674,659	9,184,116	8,778,178
Total Pension Liability - Ending (a)	<u>10,162,443</u>	<u>9,674,659</u>	<u>9,184,116</u>
Plan Fiduciary Net Position			
Contributions - Employer	349,485	359,489	295,253
Contributions - State	59,112	55,523	52,895
Contributions - Employee	84,801	78,060	101,569
Contributions - Buy Back	9,448	13,848	0
Net Investment Income	427,781	15,377	746,595
Benefit Payments, Including Refunds of Employee Contributions	(517,103)	(592,783)	(501,198)
Administrative Expense	(32,292)	(23,445)	(13,046)
Net Change in Plan Fiduciary Net Position	381,232	(93,931)	682,068
Plan Fiduciary Net Position - Beginning	7,993,691	8,087,622	7,405,554
Plan Fiduciary Net Position - Ending (b)	<u>8,374,923</u>	<u>7,993,691</u>	<u>8,087,622</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,787,520</u>	<u>\$ 1,680,968</u>	<u>\$ 1,096,494</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.41%	82.63%	88.06%
Covered Employee Payroll	<u>\$ 1,060,008</u>	<u>\$ 1,330,898</u>	<u>\$ 966,824</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	168.63%	126.30%	113.41%

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

Differences between Plan Fiduciary Net Position presented above and the amounts presented in the financial statements are due to certain accruals which are the result of timing differences. These differences are not considered to be significant.

**SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	September 30, 2016	September 30, 2015	September 30, 2014
Actuarially Determined Contribution	\$ 380,225	\$ 322,780	\$ 322,145
Contributions in Relation to the Actuarially Determined Contributions	376,377	386,381	322,145
Contribution Deficiency (Excess)	\$ 3,848	\$ (63,601)	\$ 0
Covered Employee Payroll	\$ 1,060,008	\$ 1,330,898	\$ 966,824
Contributions as a Percentage of Covered Employee Payroll	35.51%	29.03%	33.32%

Notes to Schedule:

Valuation Date: 10/1/2014

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method
Amortization Method:	Level Percentage of Pay, Closed
Remaining Amortization Period:	27 Years (as of 10/1/2014)
Asset Valuation Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.
Inflation:	2.5% Per Year
Salary Increases:	6.5% per year until the assumed retirement age. Projected salary at retirement is increased individually based on accumulated sick and annual leave payouts to account for non-regular compensation.
Interest Rate:	8.0% per year compounded annually, net of investment related expenses.
Payroll Increase:	0.4% per year for amortization of the UAAL.
Normal Retirement:	Earlier of: (1) Age 55 and 10 years of Credited Service, or (2) 25 years of Credited Service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.
Early Retirement:	Commencing with the earliest Early Retirement age (50), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.
Termination Rate:	See Table Below.
Disability Rate:	See Table Below. 75% of disablements are assumed to be service related.
Mortality Rate:	RP-2000 Table with no projection - Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years.)
Other Information:	Termination and Disability Rate Table:

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

**SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Annual Money - Weighted Rate of Return Net of Investment Expense	5.39%	0.19%	9.98%

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

**SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

Other Postemployment Benefits

Actuarial Valuation Date October 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
2016	\$ 0	\$ 762,300	\$ 762,300	0.00%	\$ 3,173,800	24.02%
2013	0	397,300	397,300	0.00%	3,028,600	13.12%
2010	0	486,300	486,300	0.00%	3,064,700	15.87%

Changes from Prior Valuation

The assumed mortality rates have been updated to rates under the RP-2014 Mortality Tables adjusted to base year 2006, with improvements, fully generational using Improvement Scale MP-2016.

The general inflation assumption was updated from 2.50% to 2.60% to be consistent with the most recent Florida Retirement System (FRS) actuarial valuation.

The payroll growth assumption was updated from 3.70% to 3.25% to be consistent with the most recent Florida Retirement System (FRS) actuarial valuation.

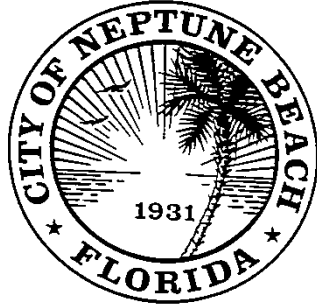
Life insurance premium rates have been updated from \$0.31 per month per \$1,000 of coverage to \$0.39 per month.

The assumed claim costs have been updated to reflect the most recent premium rates.

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

Other Postemployment Benefits

Year Ended September 30,	Annual Required Contribution	City Contributions	Percentage Contributed
2016	\$ 52,300	\$ 19,400	37.09%
2015	31,400	14,400	45.86%
2014	30,300	12,700	41.91%



Combining and Individual Fund Statements and Schedules

Annual Financial Report

**DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

Special Revenue Funds

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

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

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds.

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	Special Revenue Funds				
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeiture Proceeds Fund	Street Improvement Fund
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,554	\$ 1,404	\$ 56,487	\$ 3,824	\$ 104,145
Due from Other Governments	494	464	3,052	0	4,864
Total Assets	3,048	1,868	59,539	3,824	109,009
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	0	3,153	154	0	2,164
Due to Other Funds	0	0	0	0	0
Total Liabilities	0	3,153	154	0	2,164
Fund Balances					
Restricted for:					
Public Safety	3,048	0	0	3,824	0
Capital Outlay	0	0	0	0	106,845
Other Purposes	0	0	59,385	0	0
Unassigned	0	(1,285)	0	0	0
Total Fund Balances	3,048	(1,285)	59,385	3,824	106,845
Total Liabilities and Fund Balances	\$ 3,048	\$ 1,868	\$ 59,539	\$ 3,824	\$ 109,009

Special Revenue Funds						
Local Option Gas Tax Fund	Radio Communi- cations Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	Total Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 0	\$ 14,773	\$ 853,093	\$ 5,135	\$ 1,041,415	\$ 251	\$ 1,041,666
21,617	944	44,337	0	75,772	0	75,772
21,617	15,717	897,430	5,135	1,117,187	251	1,117,438
2,954	0	450	0	8,875	0	8,875
22,924	0	0	0	22,924	0	22,924
25,878	0	450	0	31,799	0	31,799
0	15,717	0	0	22,589	0	22,589
0	0	896,980	0	1,003,825	251	1,004,076
0	0	0	5,135	64,520	0	64,520
(4,261)	0	0	0	(5,546)	0	(5,546)
(4,261)	15,717	896,980	5,135	1,085,388	251	1,085,639
\$ 21,617	\$ 15,717	\$ 897,430	\$ 5,135	\$ 1,117,187	\$ 251	\$ 1,117,438

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

	Special Revenue Funds				
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeiture Proceeds Fund	Street Improvement Fund
Revenues					
Taxes	\$ 0	\$ 0	\$ 34,934	\$ 0	\$ 0
Fines and Forfeitures	4,270	0	0	8,674	0
Intergovernmental Revenues	0	44,895	0	0	59,474
Charges for Services	0	69,601	0	0	0
Investment Income	1	0	117	60	236
Miscellaneous	0	55,685	0	0	0
Total Revenues	<u>4,271</u>	<u>170,181</u>	<u>35,051</u>	<u>8,734</u>	<u>59,710</u>
Expenditures					
Current:					
Public Safety	3,100	0	0	7,256	0
Public Works	0	0	0	0	60,639
Culture and Recreation	0	180,787	8,404	0	0
Capital Outlay	0	0	6,800	24,279	0
(Total Expenditures)	<u>(3,100)</u>	<u>(180,787)</u>	<u>(15,204)</u>	<u>(31,535)</u>	<u>(60,639)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,171</u>	<u>(10,606)</u>	<u>19,847</u>	<u>(22,801)</u>	<u>(929)</u>
Other Financing Sources (Uses)					
Transfers in	0	11,858	0	0	0
Transfers (out)	0	0	(10,000)	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>11,858</u>	<u>(10,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	1,171	1,252	9,847	(22,801)	(929)
Fund Balances, Beginning of Year	<u>1,877</u>	<u>(2,537)</u>	<u>49,538</u>	<u>26,625</u>	<u>107,774</u>
Fund Balances, End of Year	<u>\$ 3,048</u>	<u>\$ (1,285)</u>	<u>\$ 59,385</u>	<u>\$ 3,824</u>	<u>\$ 106,845</u>

Special Revenue Funds

Local Option Gas Tax Fund	Radio Communi- cations Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	Total Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 253,997	\$ 0	\$ 448,447	\$ 0	\$ 737,378	\$ 0	\$ 737,378
0	11,109	0	0	24,053	0	24,053
0	0	0	0	104,369	0	104,369
0	0	0	0	69,601	0	69,601
0	21	1,974	13	2,422	0	2,422
0	0	0	8,000	63,685	0	63,685
<u>253,997</u>	<u>11,130</u>	<u>450,421</u>	<u>8,013</u>	<u>1,001,508</u>	<u>0</u>	<u>1,001,508</u>
0	0	0	0	10,356	0	10,356
195,221	0	273,399	0	529,259	0	529,259
0	0	0	8,246	197,437	0	197,437
0	0	0	0	31,079	59,749	90,828
<u>(195,221)</u>	<u>0</u>	<u>(273,399)</u>	<u>(8,246)</u>	<u>(768,131)</u>	<u>(59,749)</u>	<u>(827,880)</u>
<u>58,776</u>	<u>11,130</u>	<u>177,022</u>	<u>(233)</u>	<u>233,377</u>	<u>(59,749)</u>	<u>173,628</u>
0	0	0	0	11,858	60,000	71,858
0	0	0	0	(10,000)	0	(10,000)
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,858</u>	<u>60,000</u>	<u>61,858</u>
58,776	11,130	177,022	(233)	235,235	251	235,486
<u>(63,037)</u>	<u>4,587</u>	<u>719,958</u>	<u>5,368</u>	<u>850,153</u>	<u>0</u>	<u>850,153</u>
<u>\$ (4,261)</u>	<u>\$ 15,717</u>	<u>\$ 896,980</u>	<u>\$ 5,135</u>	<u>\$ 1,085,388</u>	<u>\$ 251</u>	<u>\$ 1,085,639</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA**

	<u>Police Education Fund</u>			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 2,800	\$ 2,800	\$ 4,270	\$ 1,470
Investment Income	0	0	1	1
Total Revenues	<u>2,800</u>	<u>2,800</u>	<u>4,271</u>	<u>1,471</u>
Expenditures				
Current:				
Public Safety	3,000	3,000	3,100	(100)
(Total Expenditures)	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,100)</u>	<u>(100)</u>
Excess of Revenues Over Expenditures	(200)	(200)	1,171	1,371
Fund Balances, Beginning of Year	<u>200</u>	<u>200</u>	<u>1,877</u>	<u>1,677</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,048</u>	<u>\$ 3,048</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Community Development Block Grant Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 44,895	\$ 44,895	\$ 44,895	\$ 0
Charges for Services	51,935	51,935	69,601	17,666
Miscellaneous	50,110	50,110	55,685	5,575
Total Revenues	<u>146,940</u>	<u>146,940</u>	<u>170,181</u>	<u>23,241</u>
Expenditures				
Current:				
Culture and Recreation	158,798	158,798	180,787	(21,989)
(Total Expenditures)	<u>(158,798)</u>	<u>(158,798)</u>	<u>(180,787)</u>	<u>(21,989)</u>
(Deficiency) of Revenues (Under)				
Expenditures	(11,858)	(11,858)	(10,606)	1,252
Other Financing Sources (Uses)				
Transfers in	11,858	11,858	11,858	0
Total Other Financing Sources (Uses)	<u>11,858</u>	<u>11,858</u>	<u>11,858</u>	<u>0</u>
Net Change in Fund Balance	0	0	1,252	1,252
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>(2,537)</u>	<u>(2,537)</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,285)</u>	<u>\$ (1,285)</u>

The perspective difference in the budget to actual amounts for Culture and Recreation are due to the budget netting charges for services against the related expenses.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	<u>Convention Development Tax Fund</u>			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 22,500	\$ 22,500	\$ 34,934	\$ 12,434
Investment Income	20	20	117	97
Total Revenues	<u>22,520</u>	<u>22,520</u>	<u>35,051</u>	<u>12,531</u>
Expenditures				
Current:				
Culture and Recreation	43,350	43,350	15,204	28,146
(Total Expenditures)	<u>(43,350)</u>	<u>(43,350)</u>	<u>(15,204)</u>	<u>28,146</u>
Excess of Revenues Over Expenditures	(20,830)	(20,830)	19,847	40,677
Other Financing (Uses)				
Transfers (out)	(10,000)	(10,000)	(10,000)	0
Total Other Financing (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
Net Change in Fund Balance	(30,830)	(30,830)	9,847	40,677
Fund Balances, Beginning of Year	<u>30,830</u>	<u>30,830</u>	<u>49,538</u>	<u>18,708</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 59,385</u>	<u>\$ 59,385</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA
 (Continued)**

	Forfeiture Proceeds Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 0	\$ 0	\$ 8,674	\$ 8,674
Investment Income	25	25	60	35
Total Revenues	<u>25</u>	<u>25</u>	<u>8,734</u>	<u>8,709</u>
Expenditures				
Current:				
Public Safety	23,025	23,025	31,535	(8,510)
(Total Expenditures)	<u>(23,025)</u>	<u>(23,025)</u>	<u>(31,535)</u>	<u>(8,510)</u>
(Deficiency) of Revenues (Under)				
Expenditures	(23,000)	(23,000)	(22,801)	199
Fund Balances, Beginning of Year	<u>23,000</u>	<u>23,000</u>	<u>26,625</u>	<u>3,625</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,824</u>	<u>\$ 3,824</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA
 (Continued)**

	<u>Street Improvements Fund</u>			Variance With Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental Revenue	\$ 65,829	\$ 65,829	\$ 59,474	\$ (6,355)
Investment Income	65	65	236	171
Total Revenues	<u>65,894</u>	<u>65,894</u>	<u>59,710</u>	<u>(6,184)</u>
Expenditures				
Current:				
Public Works	145,894	145,894	60,639	85,255
(Total Expenditures)	<u>(145,894)</u>	<u>(145,894)</u>	<u>(60,639)</u>	<u>85,255</u>
(Deficiency) of Revenues (Under) Expenditures	(80,000)	(80,000)	(929)	79,071
Fund Balances, Beginning of Year	<u>80,000</u>	<u>80,000</u>	<u>107,774</u>	<u>27,774</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 106,845</u>	<u>\$ 106,845</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Local Option Gas Tax Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 246,291	\$ 246,291	\$ 253,997	\$ 7,706
Total Revenues	<u>246,291</u>	<u>246,291</u>	<u>253,997</u>	<u>7,706</u>
Expenditures				
Current:				
Public Works	243,581	243,581	195,221	48,360
(Total Expenditures)	<u>(243,581)</u>	<u>(243,581)</u>	<u>(195,221)</u>	<u>48,360</u>
Excess of Revenues Over Expenditures	2,710	2,710	58,776	56,066
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>(63,037)</u>	<u>(63,037)</u>
Fund Balances, End of Year	<u>\$ 2,710</u>	<u>\$ 2,710</u>	<u>\$ (4,261)</u>	<u>\$ (6,971)</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA
 (Continued)**

	Radio Communication Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 10,000	\$ 10,000	\$ 11,109	\$ 1,109
Investment Income	0	0	21	21
Total Revenues	<u>10,000</u>	<u>10,000</u>	<u>11,130</u>	<u>1,130</u>
Expenditures				
Current:				
Public Safety	10,250	10,250	0	10,250
(Total Expenditures)	<u>(10,250)</u>	<u>(10,250)</u>	<u>0</u>	<u>10,250</u>
Excess of Revenues Over Expenditures	(250)	(250)	11,130	11,380
Fund Balances, Beginning of Year	<u>250</u>	<u>250</u>	<u>4,587</u>	<u>4,337</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,717</u>	<u>\$ 15,717</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 CITY OF NEPTUNE BEACH, FLORIDA
 (Continued)**

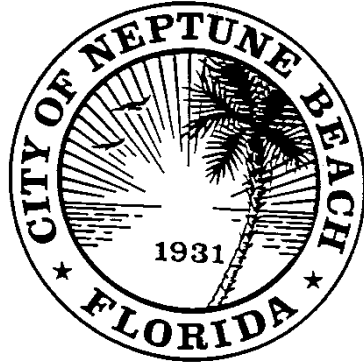
	Better Jacksonville Half-cent Tax Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 400,668	\$ 400,668	\$ 448,447	\$ 47,779
Investment Income	200	200	1,974	1,774
Total Revenues	<u>400,868</u>	<u>400,868</u>	<u>450,421</u>	<u>49,553</u>
Expenditures				
Capital Outlay	700,868	700,868	273,399	427,469
(Total Expenditures)	<u>(700,868)</u>	<u>(700,868)</u>	<u>(273,399)</u>	<u>427,469</u>
Excess of Revenues Over Expenditures	(300,000)	(300,000)	177,022	477,022
Fund Balances, Beginning of Year	<u>300,000</u>	<u>300,000</u>	<u>719,958</u>	<u>419,958</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 896,980</u>	<u>\$ 896,980</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Holiday Décor Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Investment Income	\$ 6	\$ 6	\$ 13	\$ 7
Miscellaneous	8,000	8,000	8,000	0
Total Revenues	<u>8,006</u>	<u>8,006</u>	<u>8,013</u>	<u>7</u>
Expenditures				
Current:				
Culture and Recreation	12,006	12,006	8,246	3,760
(Total Expenditures)	<u>(12,006)</u>	<u>(12,006)</u>	<u>(8,246)</u>	<u>3,760</u>
(Deficiency) of Revenues (Under) Expenditures	(4,000)	(4,000)	(233)	3,767
Fund Balances, Beginning of Year	<u>4,000</u>	<u>4,000</u>	<u>5,368</u>	<u>1,368</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,135</u>	<u>\$ 5,135</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA
(Concluded)**

	Capital Projects Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Miscellaneous	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures				
Capital Outlay	0	59,749	59,749	0
(Total Expenditures)	<u>0</u>	<u>(59,749)</u>	<u>(59,749)</u>	<u>0</u>
(Deficiency) of Revenues (Under) Expenditures	0	(59,749)	(59,749)	0
Other Financing Sources (Uses)				
Transfers in	0	60,000	60,000	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>
Net Change in Fund Balance	0	251	251	0
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 251</u>	<u>\$ 251</u>	<u>\$ 0</u>



Schedule of Expenditures of the City of Jacksonville Grant Funds

Annual Financial Report

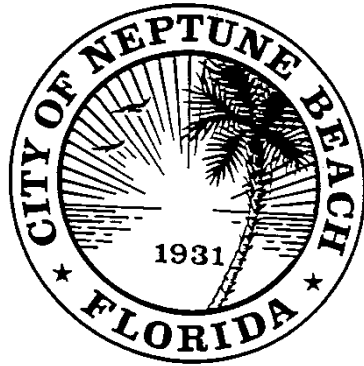
**SCHEDULE OF EXPENDITURES OF THE CITY OF JACKSONVILLE GRANT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF NEPTUNE BEACH, FLORIDA**

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

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

	Approved Budget	Actual
Receipts	\$ 44,895	\$ 44,895 (1)
Total Receipts	44,895	44,895
Expenditures		
Salaries/Wages	37,176	37,176
Employee Benefits	7,719	7,719
(Total Expenditures)	(44,895)	(44,895)
(Deficiencies) of Source (Under) Expenditures	\$ 0	\$ 0

(1) - Includes receivable balance at September 30, 2016 of \$464



Other Reports

Annual Financial Report

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2016, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Certified Public Accountants

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

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

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


Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the City in a separate letter dated May 5, 2017.

Purpose of this Report

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


May 5, 2017
Gainesville, Florida

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

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

We have examined the City of Neptune Beach, Florida's (the City) compliance with Section 218.415, Florida Statutes, as of and for the year ended September 30, 2016, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

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

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

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


May 5, 2017
Gainesville, Florida

Certified Public Accountants

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MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of Neptune Beach, Florida, (the City), as of and for the year ended September 30, 2016, and have issued our report thereon dated May 5, 2017.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, *Rules of the Auditor General*.

Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on Compliance with Section 218.415, Florida Statutes. Disclosures in those reports, which are dated May 5, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. We have determined that corrective actions were taken to address the findings noted in the preceding annual financial report.

Official Title and Legal Authority

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

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Certified Public Accountants

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

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

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

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

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

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

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

Purpose of this Letter

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

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


May 5, 2017

Gainesville, Florida