

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
CITY OF NEPTUNE BEACH, FLORIDA
SEPTEMBER 30, 2015**



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

CITY OF NEPTUNE BEACH, FLORIDA

SEPTEMBER 30, 2015

TABLE OF CONTENTS

Principal City Officials	1
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	14
Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position - Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	18
Statement of Cash Flows - Proprietary Funds	19
Statement of Net Position - Fiduciary Fund	20
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	21
Notes to Financial Statements	22-50
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	51
Note to the Budgetary Comparison Schedule - General Fund	52
Schedule of Changes in Net Pension Liability and Related Ratios	53
Schedule of Contributions	54
Schedule of Investment Returns	55
Schedule of Funding Progress	56
Schedule of Contributions from Employer and Other Contributing Entities - Other Postemployment Benefits	57

**FINANCIAL STATEMENTS
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SEPTEMBER 30, 2015

**TABLE OF CONTENTS
(Concluded)**

Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds.....	58-59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	60-61
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Nonmajor Governmental Funds	62-70
Schedule of Expenditures of the City of Jacksonville Grant Funds	71
Other Reports	
Additional Elements of Report Prepared in Accordance with <i>Government Auditing Standards</i>, Issued by the Comptroller General of the United States; and the <i>Rules of the Auditor General of the State of Florida</i>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72-73
Independent Accountants' Report on Compliance with Section 218.415, Florida Statutes.....	74
Management Letter.....	75-77
Management Letter Response	78



Introductory Section

Annual Financial Report



City of Neptune Beach, Florida

Principal Officials

Elected Officials

Harriet Pruette - Mayor

Richard Arthur - Vice Mayor

John Jolly - Councilor

Kara Tucker - Councilor

Scott Wiley – Councilor

City Council Appointed Officials

Andrew E. Hyatt - City Manager

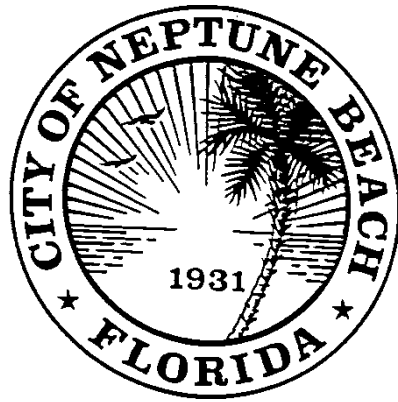
Patrick Krechowski - City Attorney

Karla Strait – 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, 2015, 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, 2015, 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

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Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

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

INDEPENDENT AUDITORS' REPORT (Concluded)

Emphasis of Matter

As discussed in Note 12 to the financial statements, during the current year, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require employers participating in defined benefit pension plans to report the net pension liability and other pension related deferred inflows and outflows related to these plans. In connection with the implementation of these statements, the City decreased its beginning net position in the governmental activities by \$1,129,860. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reports Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 15, 2016, 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.

Durvis, Gray and Company, LLP

May 15, 2016
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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2015 by \$14,448,760 (net position). The net position of the City increased by \$1,199,131.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of \$3,235,470, an increase of \$214,572 in comparison with the prior year.
- At September 30, 2015, unassigned fund balance for the General Fund was \$2,222,243 or 48.3% of total General Fund expenditures.
- General fund revenues increased by \$112,793 or 2.5% above the prior fiscal year due an increase in operating receipts.
- The City's outstanding notes payable and bonded debt decreased by \$505,956 or 6.4% during fiscal year 2015. This decrease was due to normal debt payments made during the fiscal year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Management's Discussion and Analysis

(Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

Proprietary funds provide the same type information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Sanitation Fund, considered to be major funds of the City of Neptune Beach and the Stormwater Fund, reported as a non-major fund. The basic proprietary fund financial statements can be found on pages 17 - 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 - 50 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 51-57 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 58-71 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,448,760 at the close of the fiscal year ended September 30, 2015.

City of Neptune Beach's Net Position September 30, 2015 (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2015	2014*	2015	2014*	2015	2014*
Current and Other Assets	\$ 3,495	\$ 3,345	\$ 5,358	\$ 5,005	\$ 8,853	\$ 8,350
Capital Assets	4,176	4,357	11,584	11,035	15,760	15,392
Total Assets	7,671	7,702	16,942	16,040	24,613	23,742
Deferred Outflows	295	0	0	0	295	0
Long- term Liabilities Outstanding	1,481	439	6,760	8,023	8,241	8,462
Other Liabilities	303	272	1,790	629	2,093	901
Total Liabilities	1,784	711	8,550	8,652	10,334	9,363
Deferred Inflows	125	0	0	0	125	0
Net Position						
Net Invested in Capital Assets	4,175	4,357	6,413	5,980	10,588	10,337
Restricted	916	852	398	372	1,314	1,224
Unrestricted	966	1,782	1,581	1,036	2,547	2,818
Total Net Position	\$ 6,057	\$ 6,991*	\$ 8,392	\$ 7,388*	\$ 14,449	\$14,379*

* The effects of GASB 68 implementation have not been reflected in the 2014 figures.

The largest portion of the City's net position \$10,588,411 (73.3%) 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, \$1,313,575 (9.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the net position, \$2,546,774 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 2015 governmental activities unrestricted net position balance decreased \$816,597 compared to the prior. The significant decrease was due to the recording of pension liabilities associated with GASB 68.

Following is a summary of activities for the City during the fiscal years ended September 30, 2015 and 2014.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges of Services	\$ 421	\$ 382	\$ 5,791	\$ 5,526	\$ 6,212	\$ 5,908
Operating Grants and Contributions	804	799	0	0	804	799
Capital Grants and Contributions	32	32	0	0	32	32
General Revenues:						
Property Taxes	2,169	2,079	0	0	2,169	2,079
Sales and Use Taxes	712	673	0	0	712	673
Franchise and Utility Taxes	618	634	0	0	618	634
Discretionary Sales Surtax	428	400	0	0	428	400
State Revenue Sharing	181	169	0	0	181	169
Interest Revenue	4	4	3	3	7	7
Miscellaneous	125	212	53	6	178	218
Total Revenues	<u>5,494</u>	<u>5,384</u>	<u>5,847</u>	<u>5,535</u>	<u>11,341</u>	<u>10,919</u>
Expenses						
General Government	977	852	0	0	977	852
Public Safety	2,790	2,988	0	0	2,790	2,988
Public Works	1,164	1,286	0	0	1,164	1,286
Culture and Recreation	442	407	0	0	442	407
Interest on L-T Debt	0	0	0	0	0	0
Water and Sewer	0	0	3,045	2,909	3,045	2,909
Sanitation	0	0	1,444	1,086	1,444	1,086
Stormwater	0	0	279	269	279	269
Total Expenses	<u>5,373</u>	<u>5,533</u>	<u>4,768</u>	<u>4,264</u>	<u>10,141</u>	<u>9,797</u>
Net Increase(Decrease) in Net Position Before Transfers	<u>121</u>	<u>(149)</u>	<u>1,079</u>	<u>1,271</u>	<u>1,200</u>	<u>1,122</u>
Transfers	<u>75</u>	<u>50</u>	<u>(75)</u>	<u>(50)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	<u>196</u>	<u>(99)</u>	<u>1,004</u>	<u>1,221</u>	<u>1,200</u>	<u>1,122</u>
Net Position – Beginning	<u>5,861</u>	<u>7,090</u>	<u>7,388</u>	<u>6,167</u>	<u>13,249</u>	<u>13,257</u>
Net Position – Ending	<u>\$ 6,057</u>	<u>\$ 6,991*</u>	<u>\$ 8,392</u>	<u>\$ 7,388*</u>	<u>\$ 14,449</u>	<u>\$ 14,379*</u>

* The effect of GASB 68 implementation and net position restatement has not been reflected in the 2014 figures.

Management's Discussion and Analysis

(Continued)

Governmental Activities

Governmental activities increased the City of Neptune Beach's net position by \$195,660 in the Governmental Funds, accounting for a 3.3% increase in governmental net position. This increase was due to increased revenues received and a slight reduction in expenditures by the City.

Business-type Activities

Business-type activities increased the City of Neptune Beach's net position by \$1,003,471, accounting for a 13.6% increase in business-type activities net position. This increase was due to increased rate charges in user fees.

Overall Financial Position

The overall financial position of the City of Neptune Beach has improved by \$1,199,131, thereby accounting for a total increase in net position of 9.1%. 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 2015, the City's governmental funds reported combined ending fund balances of \$3,235,470, an increase of \$214,572 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 2015, unassigned fund balance of the General Fund was \$2,222,243. Unreserved fund balance represents 48.3% of the total General Fund expenditures and transfers out. The fund balance of the City's General Fund increased by \$10,480 during the current fiscal year.

Non-major Governmental Funds consisting of special revenue funds have a combined fund balance of \$850,153. The net increase in fund balance during the current year in Non-major governmental funds was \$204,092. This increase was largely due to increased receipts in the Better Jacksonville Fund and a budgeted decrease in expenditures.

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 \$1,581,128.

General Fund Budgetary Highlights

The major difference in the amount of \$155,728 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, 2015, amounts to \$15,759,539 (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 2.4%.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital Assets not Being Depreciated, Land, and Construction in Progress	\$ 38	\$ 38	\$ 307	\$ 555	\$ 345	\$ 593
Buildings and Other Improvements	3,817	4,016	11,194	10,446	15,011	14,462
Equipment	321	303	83	34	404	337
Total	\$ 4,176	\$ 4,357	\$ 11,584	\$ 11,035	\$ 15,760	\$ 15,392

Additional information on the City of Neptune Beach's capital assets can be found in Note 5 on pages 35-36 of this report.

Long-term Debt

At the end of fiscal year 2015, the City of Neptune Beach had total bonded debt outstanding of \$7,348,788. 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	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue Bonds	0	0	915	1,085	915	1,085
Sewer Line Loan	0	0	3,270	3,275	3,270	3,275
Refunding Loan	0	0	526	530	526	530
State Revolving Fund Loans	0	0	2,638	2,965	2,638	2,965
Equipment	0	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 7,349	\$ 7,855	\$ 7,349	\$ 7,855

Management's Discussion and Analysis

(Concluded)

Long-term Debt (Concluded)

The City of Neptune Beach's total debt decreased by \$505,956 (6.4%) 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 5.1%. 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.

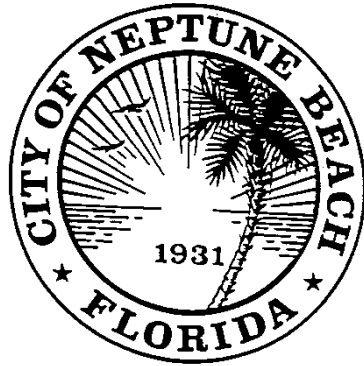
Budget Highlights:

- The City adopted the ad valorem tax rate of 3.3656 mills for its millage rate this budget year. The prior year rate was 3.3756 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.

A special thank you to our Mayor, Harriet Pruette, for the photograph used for the cover of this annual report. She has been taking pictures of the Neptune Beach area for many years and does an excellent job of highlighting the beauty of our City and its natural wonders.



Basic Financial Statements

Annual Financial Report

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA

	Governmental Activities	Business-type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,145,052	\$ 1,980,882	\$ 5,125,934
Equity in Pooled Investments	18,713	0	18,713
Accounts Receivable	100	511,464	511,564
Due from Other Governments	286,166	0	286,166
Prepaid Expenses	45,007	22,062	67,069
Restricted Assets:			
Temporarily Restricted:			
Equity in Pooled Cash and Cash Equivalents	0	2,843,655	2,843,655
Capital Assets:			
Land	37,861	0	37,861
Construction in Progress	0	306,689	306,689
Buildings	4,274,066	3,285,756	7,559,822
Improvements Other than Buildings	2,625,099	19,092,888	21,717,987
Equipment	3,046,001	3,354,587	6,400,588
(Accumulated Depreciation)	(5,807,493)	(14,455,915)	(20,263,408)
Total Assets	<u>7,670,572</u>	<u>16,942,068</u>	<u>24,612,640</u>
Deferred Outflows of Resources			
Pension Related	295,888	0	295,888
Liabilities			
Accounts Payable and Accrued Liabilities	185,789	740,715	926,504
Unearned Revenue	50,004	0	50,004
Deposits	19,286	0	19,286
Due to Other Governments	4,489	0	4,489
Compensated Absences - Current	43,945	20,740	64,685
Payable from Restricted Assets:			
Deposits	0	268,046	268,046
Accrued Interest Payable	0	12,784	12,784
Current Portion of Bonds Payable	0	175,000	175,000
Current Portion of Loans Payable	0	572,377	572,377
Noncurrent Liabilities:			
Compensated Absences - Noncurrent	299,107	111,596	410,703
Other Postemployment Benefit Obligation	85,054	47,546	132,600
Bonds Payable Long-term	0	740,000	740,000
Loans Payable Long-term	0	5,861,411	5,861,411
Net Pension Liability	1,096,494	0	1,096,494
Total Liabilities	<u>1,784,168</u>	<u>8,550,215</u>	<u>10,334,383</u>
Deferred Inflows of Resources			
Pension Related	125,385	0	125,385
Net Position			
Net Investment in Capital Assets	4,175,534	6,412,877	10,588,411
Restricted for:			
Capital Projects	827,732	0	827,732
Debt Service	0	54,566	54,566
Renewal and Replacement	0	343,282	343,282
Other Purposes	87,995	0	87,995
Unrestricted	965,646	1,581,128	2,546,774
Total Net Position	<u>\$ 6,056,907</u>	<u>\$ 8,391,853</u>	<u>\$ 14,448,760</u>

See accompanying notes.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015
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	\$ 977,694	\$ 224,238	\$ 10,896	\$ 0	\$ (742,560)	\$ 0	\$ (742,560)
Public Safety	2,790,156	87,154	189,177	32,384	(2,481,441)	0	(2,481,441)
Public Works	1,163,522	0	348,006	0	(815,516)	0	(815,516)
Culture and Recreation	442,325	109,191	256,258	0	(76,876)	0	(76,876)
Total Governmental Activities	5,373,697	420,583	804,337	32,384	(4,116,393)	0	(4,116,393)
Business-type Activities:							
Water and Sewer	3,045,571	4,246,190	0	0	0	1,200,619	1,200,619
Sanitation	1,443,884	1,252,436	0	0	0	(191,448)	(191,448)
Storm Water Utility	278,610	292,451	0	0	0	13,841	13,841
Total Business-type Activities	4,768,065	5,791,077	0	0	0	1,023,012	1,023,012
Total Primary Government	\$ 10,141,762	\$ 6,211,660	\$ 804,337	\$ 32,384	(4,116,393)	1,023,012	(3,093,381)
General Revenues							
Taxes:							
Property Taxes					2,169,287	0	2,169,287
Sales and Use Taxes					711,889	0	711,889
Franchise and Utility Taxes					618,406	0	618,406
State Revenue Sharing					180,675	0	180,675
Discretionary Sales Surtax					427,575	0	427,575
Interest Revenue					4,221	2,678	6,899
Miscellaneous					122,595	52,781	175,376
Gain of Sale of Fixed Assets					2,405	0	2,405
Transfers					75,000	(75,000)	0
Total General Revenues and Transfers					4,312,053	(19,541)	4,292,512
Change in Net Position					195,660	1,003,471	1,199,131
Net Position, Beginning of Year					6,991,107	7,388,382	14,379,489
Prior Period Adjustments					(1,129,860)	0	(1,129,860)
Net Position, Beginning of Year (as Restated)					5,861,247	7,388,382	13,249,629
Net Position, End of Year					\$ 6,056,907	\$ 8,391,853	\$ 14,448,760

See accompanying notes.

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,256,678	\$ 888,374	\$ 3,145,052
Equity in Pooled Investments	18,713	0	18,713
Accounts Receivable	0	100	100
Due from Other Governments	214,485	71,681	286,166
Due from Other Funds	78,914	0	78,914
Prepaid Items	43,074	1,933	45,007
Total Assets	<u>2,611,864</u>	<u>962,088</u>	<u>3,573,952</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable and Accrued Liabilities	152,768	33,021	185,789
Due to Other Funds	0	78,914	78,914
Due to Other Governments	4,489	0	4,489
Unearned Revenue	50,004	0	50,004
Deposits	19,286	0	19,286
Total Liabilities	<u>226,547</u>	<u>111,935</u>	<u>338,482</u>
Fund Balances			
Nonspendable:			
Prepaid Expenditures	43,074	1,933	45,007
Restricted for:			
Public Safety	0	33,089	33,089
Capital Outlay	0	827,732	827,732
Other	0	54,906	54,906
Assigned for:			
Appropriated Fund Balance	120,000	0	120,000
Unassigned	2,222,243	(67,507)	2,154,736
Total Fund Balances	<u>2,385,317</u>	<u>850,153</u>	<u>3,235,470</u>
Total Liabilities and Fund Balances	<u>\$ 2,611,864</u>	<u>\$ 962,088</u>	<u>\$ 3,573,952</u>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

Fund Balances - Total Governmental Funds	\$ 3,235,470
 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	4,175,534
 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	295,888
Deferred Inflows Related to Pension	(125,385)
 Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Net Pension Liability	(1,096,494)
Net Postemployment Benefit Obligation	(85,054)
Compensated Absences	(343,052)
	<hr/>
Net Position of Governmental Activities	\$ 6,056,907 <hr/>

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,787,693	\$ 711,575	\$ 3,499,268
Charges for Services	14,698	68,166	82,864
Licenses and Permits	210,126	0	210,126
Intergovernmental	1,349,211	104,028	1,453,239
Fines and Forfeitures	67,424	19,142	86,566
Investment Income	3,648	573	4,221
Miscellaneous	106,642	49,025	155,667
Total Revenues	<u>4,539,442</u>	<u>952,509</u>	<u>5,491,951</u>
Expenditures			
Current:			
General Government	952,477	0	952,477
Public Safety	2,799,979	20,872	2,820,851
Public Works	484,685	542,679	1,027,364
Culture and Recreation	217,433	186,724	404,157
Capital Outlay	149,935	0	149,935
(Total Expenditures)	<u>(4,604,509)</u>	<u>(750,275)</u>	<u>(5,354,784)</u>
(Deficiency) Excess of Revenues (Under) Over Expenditures	<u>(65,067)</u>	<u>202,234</u>	<u>137,167</u>
Other Financing Sources (Uses)			
Proceeds on Sale of Capital Assets	2,405	0	2,405
Transfers in	85,000	11,858	96,858
Transfers (out)	(11,858)	(10,000)	(21,858)
Total Other Financing Sources (Uses)	<u>75,547</u>	<u>1,858</u>	<u>77,405</u>
Net Changes in Fund Balances	10,480	204,092	214,572
Fund Balances, Beginning of Year	<u>2,374,837</u>	<u>646,061</u>	<u>3,020,898</u>
Fund Balances, End of Year	<u>\$ 2,385,317</u>	<u>\$ 850,153</u>	<u>\$ 3,235,470</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, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds	\$	214,572
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**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	\$ 149,935		
(Current Year Depreciation)	<u>(331,191)</u>		(181,256)

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.

151,380

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	18,018		
Change in Other Postemployment Benefits	<u>(7,054)</u>		<u>10,964</u>

Change in Net Position of Governmental Activities	\$	<u><u>195,660</u></u>
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See accompanying notes.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015
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	\$ 1,109,216	\$ 718,164	\$ 153,502	\$ 1,980,882
Accounts Receivable, Net of Allowance	368,728	114,051	28,685	511,464
Prepaid Expenses	17,627	2,843	1,592	22,062
Total Current Assets	1,495,571	835,058	183,779	2,514,408
Noncurrent Assets:				
Equity in Pooled Restricted Cash and Cash Equivalents	2,843,655	0	0	2,843,655
Capital Assets:				
Buildings	3,285,756	0	0	3,285,756
Improvements Other than Buildings	19,048,786	0	44,102	19,092,888
Equipment	2,501,034	301,455	552,098	3,354,587
Construction in Progress	305,703	0	986	306,689
(Less Accumulated Depreciation)	(13,760,232)	(301,455)	(394,228)	(14,455,915)
Total Capital Assets	11,381,047	0	202,958	11,584,005
Total Noncurrent Assets	14,224,702	0	202,958	14,427,660
Total Assets	15,720,273	835,058	386,737	16,942,068
Liabilities				
Current Liabilities from Unrestricted Assets:				
Accounts Payable and Accrued Liabilities	299,132	432,371	9,212	740,715
Compensated Absences	18,666	0	2,074	20,740
Total Current Liabilities Payable from Unrestricted Assets	317,798	432,371	11,286	761,455
Current Liabilities Payable from Restricted Assets:				
Deposits	268,046	0	0	268,046
Current Portion of Bonds Payable	175,000	0	0	175,000
Current Portion of Loans Payable	572,377	0	0	572,377
Accrued Interest Payable	12,784	0	0	12,784
Total Current Liabilities Payable from Restricted Assets	1,028,207	0	0	1,028,207
Noncurrent Liabilities:				
Compensated Absences	98,491	0	13,105	111,596
Bonds Payable	740,000	0	0	740,000
Loans Payable	5,861,411	0	0	5,861,411
Other Postemployment Benefits	39,868	4,715	2,963	47,546
Total Noncurrent Liabilities	6,739,770	4,715	16,068	6,760,553
Total Liabilities	8,085,775	437,086	27,354	8,550,215
Net Position				
Net Investment in Capital Assets	6,209,919	0	202,958	6,412,877
Restricted for:				
Debt Service	54,566	0	0	54,566
Renewal and Replacement	343,282	0	0	343,282
Unrestricted	1,026,731	397,972	156,425	1,581,128
Total Net Position	\$ 7,634,498	\$ 397,972	\$ 359,383	\$ 8,391,853

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Stormwater Utility	Total
Operating Revenue				
Charges for Services	\$ 4,221,178	\$ 1,252,436	\$ 292,451	\$ 5,766,065
Connection and Impact Fees	25,012	0	0	25,012
Other Income	0	0	52,781	52,781
Total Operating Revenues	4,246,190	1,252,436	345,232	5,843,858
Operating Expenses				
Personal Services	1,526,695	176,386	121,882	1,824,963
Utilities	259,846	0	8,290	268,136
Supplies and Materials	181,271	6,914	9,363	197,548
Contractual Services	152,962	1,230,201	58,086	1,441,249
Depreciation and Amortization	425,295	0	60,108	485,403
Repairs and Maintenance	184,503	8,774	20,881	214,158
Insurance	66,772	12,065	0	78,837
Other Operating	18,550	9,544	0	28,094
(Total Operating Expenses)	(2,815,894)	(1,443,884)	(278,610)	(4,538,388)
Operating Income	1,430,296	(191,448)	66,622	1,305,470
Nonoperating Revenues (Expenses)				
Interest Revenue	2,170	458	50	2,678
Interest/Amortization Expense	(229,677)	0	0	(229,677)
Total Nonoperating Revenues (Expenses)	(227,507)	458	50	(226,999)
Income Before Operating Transfers	1,202,789	(190,990)	66,672	1,078,471
Operating Transfers (out)	(75,000)	0	0	(75,000)
Change in Net Position	1,127,789	(190,990)	66,672	1,003,471
Total Net Position, Beginning of Year	6,506,709	588,962	292,711	7,388,382
Total Net Position, End of Year	\$ 7,634,498	\$ 397,972	\$ 359,383	\$ 8,391,853

See accompanying notes.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
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	\$ 4,265,316	\$ 1,263,815	\$ 348,163	\$ 5,877,294
Cash Paid to Suppliers	(831,760)	(914,578)	(101,061)	(1,847,399)
Cash Paid to Employees	(1,528,362)	(176,386)	(118,295)	(1,823,043)
Net Cash Provided by (Used in) Operating Activities	1,905,194	172,851	128,807	2,206,852
Cash Flows from Noncapital Financing Activities				
Transfers to Other Funds	(75,000)	0	0	(75,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	(75,000)	0	0	(75,000)
Cash Flows from Capital and Related Financing Activities				
Payments on Loans and Bonds	(505,956)	0	0	(505,956)
Interest Paid on Revenue Bonds	(228,335)	0	0	(228,335)
Acquisition and Construction of Capital Assets	(1,034,014)	0	0	(1,034,014)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,768,305)	0	0	(1,768,305)
Cash Flows from Investing Activities				
Purchase of Investments	9,270	1,166	59	10,495
Interest Received	2,170	458	50	2,678
Net Cash Provided by (Used in) Investing Activities	11,440	1,624	109	13,173
Net Increase (Decrease) in Cash and Cash Equivalents	73,329	174,475	128,916	376,720
Cash and Cash Equivalents, Beginning of Year	3,879,542	543,689	24,586	4,447,817
Cash and Cash Equivalents, End of Year	\$ 3,952,871	\$ 718,164	\$ 153,502	\$ 4,824,537
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u>				
Operating Income (Loss)	\$ 1,430,296	\$ (191,448)	\$ 66,622	\$ 1,305,470
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation and Amortization	425,295	0	60,108	485,403
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):				
Accounts Receivable	270	11,379	2,931	14,580
Accounts Payable	34,140	352,783	(4,574)	382,349
Compensated Absences	(1,667)	0	3,587	1,920
Prepaid Expenses	(1,996)	137	133	(1,726)
Customer Deposits	18,856	0	0	18,856
Total Adjustments	474,898	364,299	62,185	901,382
Net Cash Provided by (Used in) Operating Activities	\$ 1,905,194	\$ 172,851	\$ 128,807	\$ 2,206,852

See accompanying notes.

**STATEMENT OF NET POSITION
FIDUCIARY FUND
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	Police Officers' Plan
Assets	
Cash and Short-term Investments	\$ 57,635
Accrued Interest Receivable	32,960
Prepaid Expenses	2,542
Investments:	
U.S. Government Obligations	957,371
Corporate Bonds	1,703,666
Electronically Traded Funds (ETFs)	1,148,245
Real Estate Investment Trust	69,246
Mutual Funds	692,000
Common Equity Securities	3,330,025
Total Investments	<u>7,900,553</u>
Total Assets	<u><u>7,993,690</u></u>
Liabilities	<u>0</u>
Total Liabilities	<u>0</u>
Net Position	
Held in Trust for Pension Benefits	<u><u>\$ 7,993,690</u></u>

See accompanying notes.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA

	Police Officers' Plan
Additions	
Contributions:	
Employees	\$ 91,909
Employer	299,116
State of Florida	55,523
Total Contributions	<u>446,548</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	(151,298)
Interest and Dividends	208,561
Miscellaneous Income	594
Total Investment Earnings	<u>57,857</u>
(Less Investment Expense)	<u>(42,380)</u>
Net Investment Earnings	<u>15,477</u>
Total Additions	<u>462,025</u>
Deductions	
Benefit Payments	307,466
Lump Sum DROP Distributions	284,321
Refunds	997
Administrative Expenses	<u>23,546</u>
(Total Deductions)	<u>(616,330)</u>
Change in Net Position	(154,305)
Net Position, Beginning of Year (as Restated)	<u>8,147,995</u>
Net Position, End of Year	<u><u>\$ 7,993,690</u></u>

See accompanying notes.



Notes to Financial Statements

Annual Financial Report

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Basic Financial Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
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, 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, 2015
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.

■ **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, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

■ **Fund Balance Classifications (Concluded)**

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

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

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

Budgets and Budgetary Accounting

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Concluded)

The adopted budgets are integrated into the accounting system. The Budgetary Comparison Schedule data, as presented in these financial statements for all funds with annual budgets, compares the expenditures with the final amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the Budgetary Comparison Schedule of the General and Special Revenue Funds presents actual expenditures in accordance with the accounting principles generally accepted in the United States on 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 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, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments (Concluded)

The Local Government Surplus Funds Trust Fund was created by Act of the Florida Legislature effective October 1, 1977 (Chapter 218, Part IV, Florida Statutes), which allowed the State Board of Administration to establish a pooled investment account (SBA Investment Pool). Rules and regulations have been developed to govern the administration of the Local Government Surplus Funds Trust Fund pursuant to Section 218.409, Florida Statutes (Chapter 19-7). The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the governing body has adopted operating procedures consistent with the requirements for a 2a-7-like pool. The fair value of investments held by the City in the SBA Investment Pool is the same as the fair value of the pooled shares. Investments within the Police Officers' Plan Fund made through financial brokers are held with trustees and are stated at fair value as determined in an active market. The City has no investments in foreign securities at September 30, 2015.

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, 2015, 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, 2015
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, 2015
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, 2015
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.

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, 2015, the cash deposits and investments included the following:

Investments Controlled by City:	
SBA Investment Pool	\$ 18,713
Total Investments Controlled by City	<u>18,713</u>
Cash:	
Cash Deposits	5,004,350
Restricted Cash	2,843,655
Certificate of Deposit	119,984
Cash on Hand	<u>1,600</u>
Total Cash	<u>7,969,589</u>
Total Cash and Investments	<u>\$ 7,988,302</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments (Continued)

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

Restricted Cash

Restricted cash in the proprietary funds at September 30, 2015, 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, 2015, were restricted for the following purposes:

Proprietary Funds

Construction Loans	\$ 2,177,661
Debt Service	54,566
Customer Deposits	268,046
Impact Fees	<u>343,382</u>
Total Restricted Cash	<u>\$ 2,843,655</u>

Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City, including the Police Officers' Plan Fund, has an investment policy that states that all fixed income investments shall have a minimum rating of "A" or higher as reported by the major credit rating services, 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. At September 30, 2015, two of the three major rating services' ratings resulted in the fixed income investment portfolio being under the 10% total portfolio threshold.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments (Continued)

Credit Risk (Concluded)

	QUALITY RATINGS									
	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	\$ 18,713
Pension Plan Investments:										
U. S. Government	\$905,666	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,705
Corporate Bonds	65,005	76,003	75,865	141,303	162,966	223,598	500,222	303,375	155,329	0
ETFs	0	0	0	0	0	0	0	0	0	1,148,245
Real Estate Inv Trust	0	0	0	0	0	0	0	0	0	69,246
Mutual Funds	0	0	0	0	0	0	0	0	0	692,000
Common Equity Securities	0	0	0	0	0	0	0	0	0	3,330,025
Total Pension Plan Investments	\$970,671	\$ 76,003	\$ 75,865	\$ 141,303	\$ 162,966	\$ 223,598	\$ 500,222	\$ 303,375	\$ 155,329	\$5,291,221

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, 2015, 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, 2015.

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:

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 2 - Cash Deposits and Investments (Concluded)

Interest Rate Risk (Continued)

	<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	\$ 18,713	\$ 0	\$ 18,713	\$ 0	\$ 0
Total Investments Controlled by the City	<u>18,713</u>	<u>0</u>	<u>18,713</u>	<u>0</u>	<u>0</u>
Pension Plan Investments:					
U.S. Government and Agency Securities	957,371	15,088	575,319	323,433	43,531
Corporate Bonds	1,703,666	60,855	1,329,119	313,692	0
ETFs	1,148,245	0	0	0	0
Real Estate Inv Trust	69,246	0	0	0	0
Mutual Funds	692,000	0	0	0	0
Equity Securities	3,330,025	0	0	0	0
Total Pension Plan Investments	<u>7,900,553</u>	<u>75,943</u>	<u>1,904,438</u>	<u>637,125</u>	<u>43,531</u>
Total Investments	<u>\$ 7,919,266</u>	<u>\$ 75,943</u>	<u>\$ 1,923,151</u>	<u>\$ 637,125</u>	<u>\$ 43,531</u>

Receivables at September 30, 2015, consist of the following:

	<u>General Fund</u>	<u>Water and Sewer</u>	<u>Sanitation Fund</u>	<u>Storm-water Utility Fund</u>	<u>Pension Plan Trust Fund</u>	<u>Non-Major/Other Funds</u>	<u>Total Funds</u>
Receivables							
Interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32,960	\$ 0	\$ 32,960
Accounts Receivable	0	434,805	134,178	31,872	0	0	600,855
Intergovernmental	<u>214,485</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>71,681</u>	<u>286,166</u>
Gross Receivables	214,485	434,805	134,178	31,872	32,960	71,681	919,981
Allowance	<u>0</u>	<u>(66,077)</u>	<u>(20,127)</u>	<u>(3,187)</u>	<u>0</u>	<u>0</u>	<u>(89,391)</u>
Net Receivables	<u>\$ 214,485</u>	<u>\$ 368,728</u>	<u>\$ 114,051</u>	<u>\$ 28,685</u>	<u>\$ 32,960</u>	<u>\$ 71,681</u>	<u>\$ 830,590</u>

Included in accounts receivable are \$309,955 earned but not billed as of September 30, 2015.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 3 - Receivables and Payables

Accounts payable and accrued liabilities at September 30, 2015, were as follows:

	<u>Vendors</u>	<u>Employees</u>	<u>Total</u>
Governmental Funds			
General	\$ 67,149	\$ 85,619	\$ 152,768
Nonmajor Fund	22,607	10,414	33,021
Total Governmental Funds	<u>\$ 89,756</u>	<u>\$ 96,033</u>	<u>\$ 185,789</u>
Proprietary Funds			
Water and Sewer	\$ 225,714	\$ 73,418	\$ 299,132
Sanitation	424,597	7,774	432,371
Stormwater Utility	3,453	5,759	9,212
Total Proprietary Funds	<u>\$ 653,764</u>	<u>\$ 86,951</u>	<u>\$ 740,715</u>

Note 4 - Interfund Transactions

At September 30, 2015, the City had the following due to/from other funds:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General	\$ 78,194	\$ 0
Nonmajor Governmental	0	78,194
Total Governmental Funds	<u>\$ 78,194</u>	<u>\$ 78,194</u>

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, 2015:

	<u>Transfers In</u>		
	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Transfers Out			
Nonmajor			
Governmental Funds	\$ 10,000	\$ 0	\$ 10,000
Water and Sewer Fund	75,000	0	75,000
General Fund	0	11,858	11,858
Total Transfers Out	<u>\$ 85,000</u>	<u>\$ 11,858</u>	<u>\$ 96,858</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 4 - Interfund Transactions (Concluded)

Transfers in (out) during the fiscal year 2015, 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.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended September 30, 2015, is as follows:

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 37,861	\$ 0	\$ 0	\$ 37,861
Total Capital Assets, Not Being Depreciated	37,861	0	0	37,861
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,274,066	0	0	4,274,066
Improvements Other than Buildings	2,625,099	0	0	2,625,099
Equipment	2,923,316	149,935	(27,250)	3,046,001
Total Capital Assets, Being Depreciated	9,822,481	149,935	(27,250)	9,945,166
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,430,906)	(73,812)	0	(1,504,718)
Improvements Other than Buildings	(1,452,314)	(125,071)	0	(1,577,385)
Equipment	(2,620,332)	(132,308)	27,250	(2,725,390)
Total Accumulated Depreciation	(5,503,552)	(331,191)	27,250	(5,807,493)
Total Capital Assets, Being Depreciated, Net	4,318,929	(181,256)	0	4,137,673
Governmental Activities				
Capital Assets, Net	<u>\$ 4,356,790</u>	<u>\$ (181,256)</u>	<u>\$ 0</u>	<u>\$ 4,175,534</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 5 - Capital Assets (Concluded)

	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 555,316	\$ 292,642	\$ (541,269)	\$ 306,689
Total Capital Assets, Not Being Depreciated	<u>555,316</u>	<u>292,642</u>	<u>(541,269)</u>	<u>306,689</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,285,756	0	0	3,285,756
Improvements Other than Buildings	17,991,899	1,100,989	0	19,092,888
Equipment	<u>3,172,935</u>	<u>181,652</u>	<u>0</u>	<u>3,354,587</u>
Total Capital Assets, Being Depreciated	<u>24,450,590</u>	<u>1,282,641</u>	<u>0</u>	<u>25,733,231</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,285,756)	0	0	(3,285,756)
Improvements Other than Buildings	(7,546,364)	(352,064)	0	(7,898,428)
Equipment	<u>(3,138,392)</u>	<u>(133,339)</u>	<u>0</u>	<u>(3,271,731)</u>
Total Accumulated Depreciation	<u>(13,970,512)</u>	<u>(485,403)</u>	<u>0</u>	<u>(14,455,915)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,480,078</u>	<u>797,238</u>	<u>0</u>	<u>11,277,316</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 11,035,394</u>	<u>\$ 1,089,880</u>	<u>\$ (541,269)</u>	<u>\$ 11,584,005</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 33,739
Public Safety	127,974
Transportation	134,079
Culture and Recreation	<u>35,399</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 331,191</u>
Business-type Activities	
Water and Sewer	\$ 425,295
Sanitation	0
Stormwater Utility	<u>60,108</u>
Total Depreciation Expense – Business-type Activities	<u>\$ 485,403</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities

At September 30, 2015, 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	\$ 915,000
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	68,156
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	786,307
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	1,783,013
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	3,270,000
Water and Sewer Revenue Note, Series 2013B Dated September 10, 2013, for \$745,000, Due in Semi-annual Installments of Principle Ranging from \$80,000-\$225,000, Bearing an Interest Rate of 0.99%, Final Payment Due October 1, 2017	0	526,312
Total	<u>\$ 0</u>	<u>\$ 7,348,788</u>

Transactions for the year ended September 30, 2015, are summarized as follows:

	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2015</u>	<u>Due Within One Year</u>
Governmental Activities					
Net Pension Liability	\$ 1,372,624	\$ 0	\$ (276,130)	\$ 1,096,494	\$ 0
Other Postemployment Benefit Obligations	78,000	7,054	0	85,054	0
Compensated Absences	<u>361,070</u>	<u>250,143</u>	<u>(268,161)</u>	<u>343,052</u>	<u>43,945</u>
Governmental Activities – Long-term Liabilities	<u>\$ 1,811,694</u>	<u>\$ 257,197</u>	<u>\$ (544,291)</u>	<u>\$ 1,524,600</u>	<u>\$ 43,945</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities (Continued)

	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2015</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds Payable:					
Infrastructure Revenue Bonds, 2010(A)	\$ 1,085,000	\$ 0	\$ (170,000)	\$ 915,000	\$ 175,000
Loans Payable:					
Drinking Water Loan #1	78,192	0	(10,036)	68,156	10,392
Drinking Water Loan #2	878,283	0	(91,976)	786,307	94,806
Clean Water Loan	2,008,269	0	(225,256)	1,783,013	232,179
Water and Sewer Line Note Series 2013A	3,275,000	0	(5,000)	3,270,000	10,000
Water and Sewer Line Note Series 2013B	<u>530,000</u>	<u>0</u>	<u>(3,688)</u>	<u>526,312</u>	<u>225,000</u>
Total Bonds and Loans Payable	<u>7,854,744</u>	<u>0</u>	<u>(505,956)</u>	<u>7,348,788</u>	<u>747,377</u>
Other Postemployment Benefit Obligations	37,600	9,946	0	47,546	0
Compensated Absences	<u>130,416</u>	<u>79,523</u>	<u>(77,603)</u>	<u>132,336</u>	<u>20,740</u>
Business-type Activities – Long-term Liabilities	<u>\$ 8,022,760</u>	<u>\$ 89,469</u>	<u>\$ (583,559)</u>	<u>\$ 7,528,670</u>	<u>\$ 768,117</u>

The annual requirements to amortize the bonds and loans payable outstanding as of September 30, 2015, are summarized as follows:

Business-type Activities

<u>Fiscal Year Ending September 30</u>	<u>Infrastructure Surtax Revenue Bonds 2010A</u>		<u>Drinking Water State Revolving Fund Construction Loan #1</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 175,000	\$ 25,470	\$ 10,391	\$ 2,308
2017	180,000	20,815	10,761	1,939
2018	185,000	16,093	11,143	1,557
2019	185,000	11,172	11,539	1,162
2020	190,000	0	11,949	752
2021-2022	<u>0</u>	<u>0</u>	<u>12,373</u>	<u>328</u>
Total	<u>\$ 915,000</u>	<u>\$ 73,550</u>	<u>\$ 68,156</u>	<u>\$ 8,046</u>

<u>Fiscal Year Ending September 30</u>	<u>Drinking Water State Revolving Fund Construction Loan #2</u>		<u>Clean Water State Revolving Fund Construction Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 94,806	\$ 23,293	\$ 232,179	\$ 52,625
2017	97,724	20,376	239,314	45,489
2018	100,730	17,369	246,669	38,135
2019	103,830	14,269	254,250	30,554
2020	107,025	11,074	262,064	22,740
2021-2025	<u>282,192</u>	<u>13,056</u>	<u>548,537</u>	<u>21,071</u>
Total	<u>\$ 786,307</u>	<u>\$ 99,437</u>	<u>\$ 1,783,013</u>	<u>\$ 210,614</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities (Continued)

Business-type Activities (Continued)

Fiscal Year Ending September 30	Water and Sewer Line Note Series 2013A		Water and Sewer Line Note Series 2013B	
	Principal	Interest	Principal	Interest
2016	\$ 10,000	\$ 109,545	\$ 225,000	\$ 3,070
2017	155,000	109,210	225,000	803
2018	240,000	104,017	76,312	0
2019	250,000	95,978	0	0
2020	255,000	87,603	0	0
2021-2025	1,410,000	303,678	0	0
2026-2030	950,000	64,153	0	0
Total	\$ 3,270,000	\$ 874,184	\$ 526,312	\$ 3,873

Fiscal Year Ending September 30	Business-type Activities Totals	
	Principals	Interests
2016	\$ 747,376	\$ 216,311
2017	907,799	198,632
2018	859,854	177,171
2019	804,619	153,135
2020	826,038	122,169
2021-2025	2,253,102	338,133
2026-2030	950,000	64,153
Total	\$ 7,348,788	\$ 1,269,704

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 \$76,202, which was the amount of remaining principle and interest on the loan.

On May 7, 2001, the City was approved for a Drinking Water State Revolving Fund Construction Loan #2 for water construction project #2. The full amount of the loan was \$1,740,925 and was used for water system project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 7% of such revenues and is payable through 2023. At year-end, pledged future revenues totaled \$885,744, which was the amount of remaining principle and interest on the loan.

On January 4, 1999, the City was approved for a Clean Water State Revolving Fund Construction Loan for sewer project construction. The full amount of the loan was \$4,428,579 and was used for sewer project construction. Revenues of the Water and Sewer Fund will repay this obligation. Annual principle and interest on the loan is expected to require 16% of such revenues and is payable through 2022. At year-end, pledged future revenues totaled \$1,993,627, which was the amount of remaining principle and interest on the loan.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 6 - Long-term Liabilities (Concluded)

Business-type Activities (Concluded)

On November 12, 2010, the City issued Infrastructure Surtax Revenue Bonds Series A for \$1,700,000. The proceeds of the bond issue are to improve the sewage treatment plant and to replace in-ground infrastructure of the City's water and sewer utility system. The bonds are secured from the infrastructure surtax. Annual principle and interest on the bonds are expected to require 49% of such revenues and are payable through 2020. However, revenues of the Water and Sewer Fund will repay these bonds. At year-end, pledged future revenues totaled \$988,550, which was the amount of remaining principle and interest on the bonds.

On September 10, 2013, the City approved the Water and Sewer Revenue Note 2013A for \$3,280,000 and 2013B for \$745,000. The proceeds of the loans will be used for improvements to the water and sewer system and refunding the 2001 Water and Sewer Bond and paying related costs. Annual principle and interest on the notes are expected to require 20% of such revenues and are payable through 2028. At year-end, pledged future revenues totaled \$4,674,369, which was the amount of remaining principle and interest on the notes.

Note 7 - Employee Benefits

Police Officers' Retirement System

Plan Description

The City Police Officers' Retirement System (Police Officers' Plan Fund), a single-employer contributory defined benefit pension plan, was established pursuant to City Ordinance 1997-10, adopted September 2, 1997, by the City Council. Members of the Police Officers' Plan Fund include full-time state certified police officers. The funding method and determination of benefits payable are provided in various acts of the Florida Legislature (Act), which created funds, including subsequent amendments, thereto. The statutes provide, in general, that funds are to be accumulated from employee contributions, City contributions, state appropriations, and income from investment of accumulated funds. The Act also provides, should the accumulated funds at any time be insufficient to meet and pay the benefits due, the City shall supplement the Police Officers' Plan Fund by an appropriation from current funds or from any revenue which may lawfully be used for said purposes in an amount sufficient to make up the deficiency. The Plan is administered by a Board of Trustees comprised of two council appointees, two members of the department elected by the membership, and a fifth member elected by the other four and appointed by the council. Investments are reported at fair value. The Police Officers' Plan Fund does not issue a stand-alone financial report. Plan membership in the Police Officers' Plan Fund as of October 1, 2014 and 2013, the date of the latest actuarial valuation, is as follows:

	October 1, 2014	October 1, 2013
Retirees and Beneficiaries		
Inactive Plan Members or Beneficiaries		
Currently Receiving Benefits	12	9
Inactive Plan Members Entitled to but		
not yet Receiving Benefits	6	5
Active Plan Members	13	13
Total Retirees and Beneficiaries	<u>31</u>	<u>27</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Police Officers' Retirement System (Continued)

Plan Benefits

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

Police employees attaining the earlier of the age of 55 and 10 years of credited service or 25 years of credited service, are entitled to a retirement benefit equal to 2.75% times years of credited service times average final compensation (as defined by the Police Officers' Plan Fund). Employees who have attained age 50 and have completed 10 years of service are eligible for early retirement and may elect actuarially reduced benefits. Active employees who become disabled receive accrued benefits, but not less than 42% of average monthly earnings (service incurred disability). Employees who become disabled from a non-service incurrence must have 10 years 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 Plan includes a Deferred Retirement Option Program (DROP) under which members eligible for normal retirement may have their monthly pension benefit credited to an account while continuing to be actively employed for up to five years. As of September 30, 2015, Police Plan net pension included \$393,898 of DROP account balances.

Contributions

The City's contribution is actuarially determined. Based on the actuarial valuation performed as of October 1, 2013, the City's required contribution as a percentage of covered payroll was 24.25%. Plan members are required to contribute 8% of their annual covered salary.

Measurement Date

As previously described, the City implemented GASB 68 during the current year for its pension plan. As permitted by the standard, the City elected to use a measurement date to value the net pension liability and related deferred inflows and outflows as of September 30, 2014, 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, 2015, are also included below.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Police Officers' Retirement System (Continued)

Net Pension Liability

The components of the net pension liability for the plan as of September 30, 2014, (measurement date) and for the year then ended, were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2013	\$ 8,778,178	\$ 7,405,554	\$ 1,372,624
Changes for the Year:			
Service Cost	200,463	0	200,463
Interest	680,670	0	680,670
Change in Excess State Money	26,003	0	26,003
Contributions - Employer	0	295,253	(295,253)
Contributions - State	0	52,895	(52,895)
Contributions - Employee	0	101,569	(101,569)
Net Investment Income	0	746,595	(746,595)
Benefit Payments, including			
Refunds of Contributions	(501,198)	(501,198)	0
Administrative Expenses	0	(13,046)	13,046
Net Changes	405,938	682,068	(276,130)
Balances at September 30, 2014	<u>\$ 9,184,116</u>	<u>\$ 8,087,622</u>	<u>\$ 1,096,494</u>

September 30, 2015

Total Pension Liability	\$ 9,674,659
Plan Net Position	(7,993,691)
Net Pension Liability	<u>\$ 1,680,968</u>

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

82.63%

For the year ended September 30, 2015, the City recognized total pension expense of \$144,508. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflow of Resources

Contributions Made after the Measurement Date	<u>\$ 295,888</u>
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Deferred Inflow of Resources

Net Difference Between Projected and Actual Earning on Investments	<u>\$ 125,385</u>
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

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

Contributions made after the measurement date (shown above) will be recognized as a reduction of net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Amount</u>
2016	\$ (31,346)
2017	(31,346)
2018	(31,346)
2019	(31,347)
2020	0
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, 2015: (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 0.19% and 9.98% for the years ended September 30, 2015 and 2014, respectively.

Actuarial Assumptions

The total pension liability as of September 30, 2015 and 2014 was determined, using the following actuarial assumptions, applied to all periods included in the measurement:

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, 2015 and 2014, are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

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

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

Discount Rate

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

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

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

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

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

As of September 30, 2014	1% <u>Decrease (7%)</u>	Current Discount <u>Rate (8%)</u>	1% <u>Increase (9%)</u>
Net Pension Liability	\$ 2,088,917	\$ 1,096,494	\$ 331,685

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, 2015, 46 employees were participating in the Defined Plan.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

401(a) Money Purchase Plan (Concluded)

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

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

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

Payroll for Covered Employees	\$ 2,796,643
Total City Payroll	4,065,957
Employer Contributions Required and Actually Made – 7% of Covered Payroll	195,765

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

Other 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Continued)

Other Postemployment Benefits (OPEB) (Continued)

Funding Policy—The City Council is authorized to establish benefit levels and approve actuarial assumptions used in the determination of contribution levels. The City Council establishes the contributions requirements of plan members and the City. These contributions are neither mandated nor guaranteed. The retiree contributes the premium cost each month. Spouses are also eligible for medical coverage although the retiree pays the premium cost. Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on whether the retiree elects single or single plus spouse. Currently, the City's subsidy to OPEB benefits is unfunded. There are no separate Trust Funds or equivalent arrangements into which the City makes contributions to advance-fund the OPEB obligations, as it does for its pension plans. The City's cost of the OPEB benefits, funded on a pay-as-you-go basis, was \$31,400 for the year ended September 30, 2015. The ultimate implicit and explicit subsidies which are provided over time are financed directly by the general assets of the City, which are invested in short-term fixed income instruments according to its current investment policy. The City selected an interest discount rate of 4.0% per annum, which is the long-range expected return on such short-term fixed income instruments, to calculate present values and costs of the OPEB. This is consistent with GASB Statement No. 45 guidance. Significant actuarial assumptions and the methods used to estimate the OPEB liability are as follows.

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

Assumed Cost Trend Rates:

	Percent Increase
Medical Trend	to 5%
Dental Trend	5%
General Inflation	2.5%

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 7 - Employee Benefits (Concluded)

Other Postemployment Benefits (OPEB) (Concluded)

Annual OPEB Cost and Net OPEB Obligation—The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year ended September 30, 2015, was \$31,400.

The City's annual OPEB cost and the net OPEB obligation for the fiscal year ended September 30, 2015, is as follows:

Annual Required City Contribution (ARC)	\$ 31,500
Interest on Plan Obligation	4,600
Adjustment to ARC	<u>(4,700)</u>
Annual Plan Retiree Costs	31,400
Contributions Made	<u>(14,400)</u>
Increase in Plan Obligations	17,000
Plan Obligations, Beginning of Year	<u>115,600</u>
Plan Obligations, End of Year	<u><u>\$ 132,600</u></u>

The City's percentage of annual OPEB costs contributed to the Plan, and the net OPEB obligation for the fiscal year ended September 30, 2015, is as follows:

Year Ending September 30	Annual OPEB Costs	City Contribution	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2015	\$ 31,400	\$ 14,400	46%	\$ 132,600
2014	30,300	12,700	42%	115,600
2013	29,200	9,200	32%	98,000

The 2015 contribution represented 46% of the annual required contribution. The actuarial valuation for the Plan was done as of September 30, 2013. As of September 30, 2013, the most recent actuarial valuation, the Plan was unfunded. The actuarial accrued liability for benefits was \$397,300 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$397,300. The covered payroll was \$3,028,600, and the ratio of the UAAL to the covered payroll was 13.1%.

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 8 - Deferred Compensation Plan

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

Note 9 - Interlocal Agreement

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

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

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

The City of Atlantic Beach provides all accounting and purchasing services for the Joint Venture. Repair and maintenance of the outfall lines and disposal of the facilities is shared by the participating municipalities in the percentages noted above. For the year ended September 30, 2015, the Joint Venture did not incur any expense for repairs or maintenance. During fiscal year 2015, the City made no contributions to the Joint Venture. The Joint Venture has no debt outstanding on applicable financial statements as of September 30, 2015.

Note 10 - Risk Management

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

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)

Note 11 - Commitments and Contingencies

The City of Neptune Beach and the City of Jacksonville are currently in discussions concerning the terms of an interlocal agreement with regard to the disposal of residential waste. The agreement allows Neptune Beach free tippage at the landfill until Jacksonville charges a uniform rate. The agreement contains certain criteria, that when met, would trigger the City to begin paying those tippage fees. Jacksonville asserts that under terms of the agreement, the City should have begun paying tipping fees beginning October 2011. Subsequent to year-end, management determined it is likely a settlement with the City of Jacksonville will be reached in fiscal year 2016 and, accordingly, has estimated and accrued a \$350,000 settlement liability as of September 30, 2015, in the Sanitation Fund. The actual settlement amount has not been determined and could differ depending on the final terms of the settlement.

Note 12 - Other Disclosures

Deficit Fund Balance

The following nonmajor governmental funds had a deficit fund balance as of September 30, 2015:

Community Development Block Grant Fund	\$ (2,537)
Local Option Gas Tax Fund	(63,037)

Budget

During the year, the Community Development Block Grant and the Police Education Fund had an excess of expenditures over the related budget of \$21,404 and \$1,250, 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 balance of the Police Education Fund.

New Accounting Pronouncements

During the year, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the City's pension plans. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their present value, and attribute that present value to periods of employee service. GASB 68 also addresses note disclosures and required supplementary information. As permitted by the standard, the City chose to use a measurement date of the net pension liability one year prior to the reporting date. GASB 71 requires a government that is transitioning to the new standards to recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability of the initial fiscal year of implementation.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Concluded)

Note 12 - Other Disclosures (Concluded)

New Accounting Pronouncements (Concluded)

As a result of the implementation of these statements, beginning Net Position was adjusted as follows:

Governmental Activities:

Governmental Activities	\$ <u>1,129,860</u>
-------------------------	---------------------

Total Restatement of Net Position

\$ 1,129,860

Components of the restatement consist of the following:

Net Pension Liability	\$ 1,372,624
Deferred Outflows – Contributions Made During Fiscal Year Ended September 30, 2014	(295,253)
Removal of Net Pension Asset	<u>52,489</u>
Total Restatement of Net Position	\$ <u><u>1,129,860</u></u>

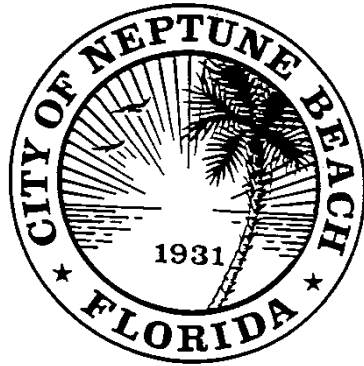
Beginning Net Position in the Statement of Changes in Fiduciary Net Position was increased by \$245,668 as a result of removing the excess tax premium liability as required under the new implemented standards

Net Position Held in Trust for Pension

Benefits, September 30, 2014	\$ 7,902,327
Increase	<u>245,668</u>

Net Position Held in Trust for Pension

Benefits, September 30, 2014, as Restated	\$ <u><u>8,147,995</u></u>
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Required Supplementary Information

(Unaudited)

Annual Financial Report

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 2,801,587	\$ 2,801,587	\$ 2,787,693	\$ (13,894)
Charges for Services	10,350	10,350	14,698	4,348
Licenses and Permits	179,500	179,500	210,126	30,626
Intergovernmental	1,243,625	1,317,353	1,349,211	31,858
Fines and Forfeitures	57,400	57,400	67,424	10,024
Investment Income	12,545	12,545	3,648	(8,897)
Miscellaneous	114,995	114,995	106,642	(8,353)
Total Revenues	4,420,002	4,493,730	4,539,442	45,712
Expenditures				
Current:				
Mayor and Council	30,935	31,935	31,463	472
City Manager	109,263	167,372	154,584	12,788
Finance Department	119,643	119,643	116,630	3,013
City Attorney	103,790	112,590	102,217	10,373
Building Department	259,164	261,614	261,597	17
City Clerk	162,862	162,862	128,547	34,315
Non-Departmental	171,288	175,838	165,430	10,408
Police Department	2,860,758	2,934,486	2,885,991	48,495
Animal Control Division	61,088	61,088	55,932	5,156
Public Works Department	491,565	491,565	484,685	6,880
Lifeguards/Beach Cleanup	241,244	241,244	217,433	23,811
(Total Expenditures)	(4,611,600)	(4,760,237)	(4,604,509)	155,728
(Deficiency) of Revenues (Under) Expenditures	(191,598)	(266,507)	(65,067)	201,440
Other Financing Sources (Uses)				
Proceeds of Sale of Capital Assets	0	0	2,405	2,405
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	75,547	2,405
Net Change in Fund Balance	(118,456)	(193,365)	10,480	203,845
Fund Balances, Beginning of Year	120,000	214,025	2,374,837	2,160,812
Fund Balances, End of Year	\$ 1,544	\$ 20,660	\$ 2,385,317	\$ 2,364,657

**NOTE TO THE BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	September 30, 2015	September 30, 2014
Total Pension Liability		
Service Cost	\$ 176,459	\$ 200,463
Interest	705,481	680,670
Changes in Excess State Money	28,631	26,003
Differences Between Expected and Actual Experience	158,907	0
Changes of Assumptions	13,848	0
Benefit Payments, Including Refunds of Member Contributions	(592,783)	(501,198)
Net Change in Total Pension Liability	490,543	405,938
Total Pension Liability - Beginning	9,184,116	8,778,178
Total Pension Liability - Ending (a)	<u>9,674,659</u>	<u>9,184,116</u>
Plan Fiduciary Net Position		
Contributions - Employer	359,489	295,253
Contributions - State	55,523	52,895
Contributions - Employee	78,060	101,569
Contributions - Buy Back	13,848	0
Net Investment Income	15,377	746,595
Benefit Payments, Including Refunds of Employee Contributions	(592,783)	(501,198)
Administrative Expense	(23,445)	(13,046)
Net Change in Plan Fiduciary Net Position	(93,931)	682,068
Plan Fiduciary Net Position - Beginning	8,087,622	7,405,554
Plan Fiduciary Net Position - Ending (b)	<u>7,993,691</u>	<u>8,087,622</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,680,968</u>	<u>\$ 1,096,194</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 82.63%	 88.06%
 Covered Employee Payroll	 <u>\$ 1,330,898</u>	 <u>\$ 966,824</u>
 Net Pension Liability as a Percentage of Covered Employee Payroll	 126.30%	 113.38%

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 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, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	September 30, 2015	September 30, 2014
Actuarially Determined Contribution	\$ 322,780	\$ 322,145
Contributions in Relation to the Actuarially Determined Contributions	386,381	322,145
Contribution Deficiency (Excess)	<u>\$ (63,601)</u>	<u>\$ 0</u>
Covered Employee Payroll	<u>\$ 1,330,898</u>	<u>\$ 966,824</u>
Contributions as a Percentage of Covered Employee Payroll	29.03%	33.32%

Notes to Schedule

Valuation Date: 10/1/2013

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:	28 Years (as of 10/1/2013)
Asset Valuation Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value return. It is possible that over time this technique will produce an insignificant bias above or below Market Value.
Inflation:	3% Per Year
Salary Increases:	6.5% per year until the assumed retirement age. Projected salary at retirement is increased individually based on accumulated sick and annual leave payouts to account for non-regular compensation.
Interest Rate:	8.0% per year compounded annually, net of investment related expenses.
Payroll Increase:	1.5% per year for amortization of the UAAL.
Normal Retirement:	Earlier of: (1) Age 55 and 10 years of Credited Service, or (2) 25 years of Credited Service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.
Early Retirement:	Commencing with the earliest Early Retirement age (50), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.
Termination Rate:	See Table Below.
Disability Rate:	See Table Below. 75% of disablements are assumed to be service related.
Mortality Rate:	RP-2000 Table with no projection - Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years.)
Other Information:	Termination and Disability Rate Table:

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

**SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Annual Money - Weighted Rate of Return		
Net of Investment Expense	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, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

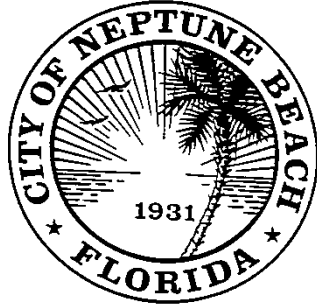
Other Postemployment Benefits

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
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%

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

Other Postemployment Benefits

Year Ended September 30,	Annual Required Contribution	City Contributions	Percentage Contributed
2015	\$ 31,400	\$ 14,400	45.86%
2014	30,300	12,700	41.91%
2013	29,200	9,200	31.51%
2012	42,900	15,300	35.66%
2011	41,100	12,900	31.39%
2010	39,500	17,300	43.80%



Combining and Individual Fund Statements and Schedules

Annual Financial Report

**DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

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.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA

	Special Revenue Funds			
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeiture Proceeds Fund
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$ 1,601	\$ 3,750	\$ 46,648	\$ 26,525
Accounts Receivable	0	0	0	100
Due from Other Governments	276	0	2,916	0
Prepays	0	1,933	0	0
Total Assets	1,877	5,683	49,564	26,625
Liabilities and Fund Balances				
Liabilities				
Accounts Payable and				
Accrued Liabilities	0	8,220	26	0
Due to Other Funds	0	0	0	0
Total Liabilities	0	8,220	26	0
Fund Balances				
Nonspendable:				
Prepaid Expenditures	0	1,933	0	0
Restricted for:				
Public Safety	1,877	0	0	26,625
Capital Outlay	0	0	0	0
Other Purposes	0	0	49,538	0
Unassigned	0	(4,470)	0	0
Total Fund Balances	1,877	(2,537)	49,538	26,625
Total Liabilities and Fund Balances	\$ 1,877	\$ 5,683	\$ 49,564	\$ 26,625

Special Revenue Funds					Total Nonmajor Governmental Funds
Street Improvement Fund	Local Option Gas Tax Fund	Radio Communi- cations Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	
\$ 121,414	\$ 0	\$ 3,665	\$ 679,403	\$ 5,368	\$ 888,374
0	0	0	0	0	100
4,640	22,372	922	40,555	0	71,681
0	0	0	0	0	1,933
126,054	22,372	4,587	719,958	5,368	962,088
18,280	6,495	0	0	0	33,021
0	78,914	0	0	0	78,914
18,280	85,409	0	0	0	111,935
0	0	0	0	0	1,933
0	0	4,587	0	0	33,089
107,774	0	0	719,958	0	827,732
0	0	0	0	5,368	54,906
0	(63,037)	0	0	0	(67,507)
107,774	(63,037)	4,587	719,958	5,368	850,153
\$ 126,054	\$ 22,372	\$ 4,587	\$ 719,958	\$ 5,368	\$ 962,088

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	Special Revenue Funds			
	Police Education Fund	Community Development Block Grant Fund	Convention Development Tax Fund	Forfeiture Proceeds Fund
Revenues				
Taxes	\$ 0	\$ 0	\$ 35,412	\$ 0
Fines and Forfeitures	4,786	0	0	2,489
Intergovernmental Revenues	0	45,469	0	0
Charges for Services	0	68,166	0	0
Investment Income	1	0	29	21
Miscellaneous	0	41,025	0	0
Total Revenues	<u>4,787</u>	<u>154,660</u>	<u>35,441</u>	<u>2,510</u>
Expenditures				
Current:				
Public Safety	4,952	0	0	7,447
Public Works	0	0	0	0
Culture and Recreation	0	166,033	11,813	0
(Total Expenditures)	<u>(4,952)</u>	<u>(166,033)</u>	<u>(11,813)</u>	<u>(7,447)</u>
(Deficiency) Excess of Revenues (Under) Over Expenditures	<u>(165)</u>	<u>(11,373)</u>	<u>23,628</u>	<u>(4,937)</u>
Other Financing Sources (Uses)				
Transfers in	0	11,858	0	0
Transfers (out)	0	0	(10,000)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>11,858</u>	<u>(10,000)</u>	<u>0</u>
Net Change in Fund Balance	(165)	485	13,628	(4,937)
Fund Balances, Beginning of Year	<u>2,042</u>	<u>(3,022)</u>	<u>35,910</u>	<u>31,562</u>
Fund Balances, End of Year	<u>\$ 1,877</u>	<u>\$ (2,537)</u>	<u>\$ 49,538</u>	<u>\$ 26,625</u>

Special Revenue Funds					
Street Improvement Fund	Local Option Gas Tax Fund	Radio Commun- ications Fund	Better Jacksonville Half-cent Tax Fund	Holiday Décor Fund	Total Nonmajor Governmental Funds
\$ 0	\$ 248,588	\$ 0	\$ 427,575	\$ 0	\$ 711,575
0	0	11,867	0	0	19,142
58,559	0	0	0	0	104,028
0	0	0	0	0	68,166
78	0	5	434	5	573
0	0	0	0	8,000	49,025
58,637	248,588	11,872	428,009	8,005	952,509
0	0	8,473	0	0	20,872
52,108	161,123	0	329,448	0	542,679
0	0	0	0	8,878	186,724
(52,108)	(161,123)	(8,473)	(329,448)	(8,878)	(750,275)
6,529	87,465	3,399	98,561	(873)	202,234
0	0	0	0	0	11,858
0	0	0	0	0	(10,000)
0	0	0	0	0	1,858
6,529	87,465	3,399	98,561	(873)	204,092
101,245	(150,502)	1,188	621,397	6,241	646,061
\$ 107,774	\$ (63,037)	\$ 4,587	\$ 719,958	\$ 5,368	\$ 850,153

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA**

	Police Education Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 2,700	\$ 2,700	\$ 4,786	\$ 2,086
Investment Income	2	2	1	(1)
Total Revenues	<u>2,702</u>	<u>2,702</u>	<u>4,787</u>	<u>2,085</u>
Expenditures				
Current:				
Public Safety	<u>3,702</u>	<u>3,702</u>	<u>4,952</u>	<u>(1,250)</u>
(Total Expenditures)	<u>(3,702)</u>	<u>(3,702)</u>	<u>(4,952)</u>	<u>(1,250)</u>
(Deficiency) of Revenues (Under)				
Expenditures	(1,000)	(1,000)	(165)	835
Fund Balances, Beginning of Year	<u>1,000</u>	<u>1,000</u>	<u>2,042</u>	<u>1,042</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,877</u>	<u>\$ 1,877</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

Community Development Block Grant Fund				
	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 45,471	\$ 45,471	\$ 45,469	\$ (2)
Charges for Services	41,385	41,385	68,166	26,781
Miscellaneous	45,915	45,915	41,025	(4,890)
Total Revenues	<u>132,771</u>	<u>132,771</u>	<u>154,660</u>	<u>21,889</u>
Expenditures				
Current:				
Culture and Recreation	144,629	144,629	166,033	(21,404)
(Total Expenditures)	<u>(144,629)</u>	<u>(144,629)</u>	<u>(166,033)</u>	<u>(21,404)</u>
(Deficiency) of Revenues (Under)				
Expenditures	(11,858)	(11,858)	(11,373)	485
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	485	485
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>(3,022)</u>	<u>(3,022)</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,537)</u>	<u>\$ (2,537)</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, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Convention Development Tax Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 21,000	\$ 21,000	\$ 35,412	\$ 14,412
Investment Income	30	30	29	(1)
Total Revenues	<u>21,030</u>	<u>21,030</u>	<u>35,441</u>	<u>14,411</u>
Expenditures				
Current:				
Culture and Recreation	4,850	4,850	11,813	(6,963)
Debt Services:				
Capital Outlay	<u>34,180</u>	<u>34,180</u>	<u>0</u>	<u>34,180</u>
(Total Expenditures)	<u>(39,030)</u>	<u>(39,030)</u>	<u>(11,813)</u>	<u>27,217</u>
(Deficiency) Excess of Revenues				
(Under) Over Expenditures	(18,000)	(18,000)	23,628	41,628
Other Financing (Uses)				
Transfers (out)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
Total Other Financing (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>0</u>
Net Change in Fund Balance	(28,000)	(28,000)	13,628	41,628
Fund Balances, Beginning of Year	<u>28,000</u>	<u>28,000</u>	<u>35,910</u>	<u>7,910</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 49,538</u>	<u>\$ 49,538</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Forfeiture Proceeds Fund			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Fines and Forfeitures	\$ 0	\$ 0	\$ 2,489	\$ 2,489
Investment Income	25	25	21	(4)
Total Revenues	25	25	2,510	2,485
Expenditures				
Current:				
Public Safety	35,025	35,025	7,447	27,578
(Total Expenditures)	(35,025)	(35,025)	(7,447)	27,578
(Deficiency) of Revenues (Under)				
Expenditures	(35,000)	(35,000)	(4,937)	30,063
Fund Balances, Beginning of Year	35,000	35,000	31,562	(3,438)
Fund Balances, End of Year	\$ 0	\$ 0	\$ 26,625	\$ 26,625

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Street Improvements Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental Revenue	\$ 63,000	\$ 63,000	\$ 58,559	\$ (4,441)
Investment Income	85	85	78	(7)
Total Revenues	<u>63,085</u>	<u>63,085</u>	<u>58,637</u>	<u>(4,448)</u>
Expenditures				
Current:				
Public Works	<u>113,085</u>	<u>113,085</u>	<u>0</u>	<u>113,085</u>
(Total Expenditures)	<u>(113,085)</u>	<u>(113,085)</u>	<u>0</u>	<u>113,085</u>
(Deficiency) Excess of Revenues (Under) Over Expenditures	(50,000)	(50,000)	58,637	108,637
Fund Balances, Beginning of Year	<u>50,000</u>	<u>50,000</u>	<u>101,245</u>	<u>51,245</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 159,882</u>	<u>\$ 159,882</u>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Local Option Gas Tax Fund			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes	\$ 235,798	\$ 235,798	\$ 248,588	\$ 12,790
Total Revenues	235,798	235,798	248,588	12,790
Expenditures				
Current:				
Public Works	235,798	235,798	161,123	74,675
(Total Expenditures)	(235,798)	(235,798)	(161,123)	74,675
Excess of Revenues Over				
Expenditures	0	0	87,465	87,465
Fund Balances, Beginning of Year	0	0	(150,502)	(150,502)
Fund Balances, End of Year	\$ 0	\$ 0	\$ (63,037)	\$ (63,037)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Radio Communication Fund			Variance With Final Budget
	Budgeted Amounts		Actual Amounts	Positive (Negative)
	Original	Final		
Revenues				
Fines and Forfeitures	\$ 10,000	\$ 10,000	\$ 11,867	\$ 1,867
Investment Income	1	1	5	4
Total Revenues	<u> 10,001</u>	<u> 10,001</u>	<u> 11,872</u>	<u> 1,871</u>
Expenditures				
Current:				
Public Safety	<u> 11,001</u>	<u> 11,001</u>	<u> 8,473</u>	<u> 2,528</u>
(Total Expenditures)	<u> (11,001)</u>	<u> (11,001)</u>	<u> (8,473)</u>	<u> 2,528</u>
(Deficiency) Excess of Revenues				
(Under) Over Expenditures	(1,000)	(1,000)	3,399	4,399
Fund Balances, Beginning of Year	<u> 1,000</u>	<u> 1,000</u>	<u> 1,188</u>	<u> 188</u>
Fund Balances, End of Year	\$ 0	\$ 0	\$ 4,587	\$ 4,587

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Continued)**

	Better Jacksonville Half-cent Tax Fund			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes	\$ 376,745	\$ 376,745	\$ 427,575	\$ 50,830
Investment Income	200	200	434	234
Total Revenues	376,945	376,945	428,009	51,064
Expenditures				
Capital Outlay	576,945	576,945	329,448	247,497
(Total Expenditures)	(576,945)	(576,945)	(329,448)	247,497
(Deficiency) Excess of Revenues				
(Under) Over Expenditures	(200,000)	(200,000)	98,561	298,561
Fund Balances, Beginning of Year	200,000	200,000	621,397	421,397
Fund Balances, End of Year	\$ 0	\$ 0	\$ 719,958	\$ 719,958

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
CITY OF NEPTUNE BEACH, FLORIDA
(Concluded)**

	Holiday Décor Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Investment Income	\$ 6	\$ 6	\$ 5	\$ (1)
Miscellaneous	8,000	8,000	8,000	0
Total Revenues	<u>8,006</u>	<u>8,006</u>	<u>8,005</u>	<u>(1)</u>
Expenditures				
Current:				
Culture and Recreation	12,006	12,006	8,878	3,128
(Total Expenditures)	<u>(12,006)</u>	<u>(12,006)</u>	<u>(8,878)</u>	<u>3,128</u>
(Deficiency) of Revenues (Under)				
Expenditures	(4,000)	(4,000)	(873)	3,127
Fund Balances, Beginning of Year	<u>4,000</u>	<u>4,000</u>	<u>6,241</u>	<u>2,241</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,368</u>	<u>\$ 5,368</u>



Schedule of Expenditures of the City of Jacksonville Grant Funds

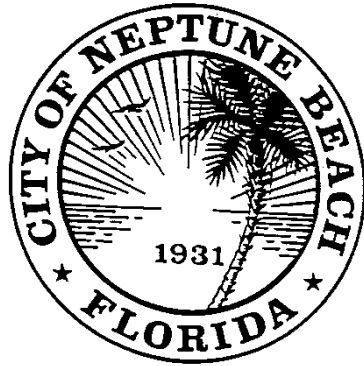
Annual Financial Report

**SCHEDULE OF EXPENDITURES OF THE CITY OF JACKSONVILLE GRANT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
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
	<hr/>	<hr/>
Receipts	\$ 45,469	\$ 45,469
Total Receipts	<hr/> 45,469 <hr/>	<hr/> 45,469 <hr/>
Expenditures		
Salaries/Wages	37,750	37,750
Employee Benefits	<hr/> 7,719	<hr/> 7,719
(Total Expenditures)	<hr/> 45,469 <hr/>	<hr/> 45,469 <hr/>
(Deficiencies) of Source (Under) Expenditures	<hr/> \$ 0 <hr/>	<hr/> \$ 0 <hr/>



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, 2015, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 15, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Certified Public Accountants

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

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

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

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 15, 2016.

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.

Durvis, Gray and Company, LLP

May 15, 2016
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, 2015, 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, 2015.

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

Purvis, Gray and Company, LLP

May 15, 2016
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, 2015, and have issued our report thereon dated May 15, 2016.

Auditors' Responsibility

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

Other Reports

We have issued our report on internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 15, 2016, should be considered in conjunction with this management letter.

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

Prior Audit Findings

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

Official Title and Legal Authority

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

Certified Public Accountants

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

MANAGEMENT LETTER *(Continued)*

Financial Condition

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

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

Annual Financial Report

Section 10.554(1)(i)5.(b)., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

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

Other Matters

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

■ **14-1—Water Utility Line Loss**

As part of our procedures for the 2013, 2014, and 2015 audits, we calculated the line loss of the City's water utility based upon gallons billed to customer versus gallons pumped from the water treatment plant. The line loss calculated for the fiscal years were 31%, 36%, and 26% for the 2013, 2014, and 2015 audits, respectively. In 2013, the United States Environmental Protection Agency reported that average unaccounted for line loss in water systems was 16%.

In June 2014, the City identified approximately 380 meters that had zero reads, which possibly indicated broken meters. During fiscal year 2015, the City replaced these zero read meters and started a meter replacement program. In addition, the City identified that the main meter from the water treatment plant had a "T" leading into the meter. This "T" was thought to be providing turbulence resulting in inaccurate reads. In May of 2015, the City removed the "T" leading into the main meter. The months following the removal of the "T" resulted in line loss calculations ranging from 15% to 18% per month.

We recommend the City continue to perform aggressive meter testing and replace meters as deemed necessary.

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

MANAGEMENT LETTER
(Concluded)

Other Matters (Concluded)

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

Purpose of this Letter

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

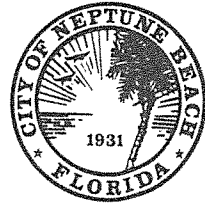
We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Purvis, Gray and Company, LLP

May 15, 2016
Gainesville, Florida

City of **Neptune Beach**

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



May 12, 2016

Purvis Gray & Company
222 NE 1st Street
Gainesville, FL 32604

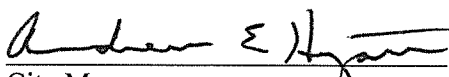
Management Letter Response

14-1. Water Utility Line Loss

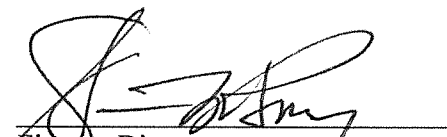
Response – Since this matter was pointed out by the auditors, the City is utilizing all methods to try and correct this type of line loss and has had success in reducing the loss amount. At this time we have changed out approximately 700 meters, including two 4” meters and the “T” in the line leading from the treatment plant. As a result of these changes our line loss has dropped from the prior year levels of approximately 33% to an acceptable level of from 15% - 18%. The City also begun a meter replacement program to help alleviate this from becoming an issue in the future.

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

The City is now budgeting approximately \$150,000 to \$200,000 per year to replace aging, leaking water lines in our neighborhoods. It will take time to do the required replacements due to our limited budget, but the City is making a conscious effort to work on this problem.



City Manager



Finance Director