

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

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CITY OF FERNANDINA BEACH, FLORIDA

SEPTEMBER 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina 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 City of Fernandina Beach, Florida (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

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

To the Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and required supplementary information on pages 57 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



March 13, 2017
Tallahassee, Florida

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016**

The management of the City of Fernandina Beach, Florida (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. The City's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

HIGHLIGHTS

Financial Highlights

- The net position of the City exceeded its liabilities at the close of fiscal year 2016 by \$50,868,284. The Unrestricted portion of the City's Net Position is \$3,095,892. This compares to the Unrestricted Net Position last year of a negative \$286,279. This is an improvement of \$3,382,171.
- Revenues from Governmental activities increased by \$202,362 or 1.0% when compared to fiscal year 2015. Increases in Charges for Services and Property Taxes accounted for \$898,249 while Grant Revenue decreased \$926,727. Other Taxes, from Insurance Premium Taxes, were \$224,176. These taxes were not recorded as General Fund Revenues in the prior fiscal year. The excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses of \$770,623 in the General Fund compares to an excess of \$702,822 in 2015. The excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses of \$2,637,182 for Total Governmental Funds compares to an excess of \$738,187 in 2015, an increase of \$1,898,995. The increase year over year is due primarily to proceeds from notes issued during fiscal year 2016.
- Business-type activities (the City's enterprise funds) total revenues decreased by \$1,360,257 or 7.4%. Golf Revenues increased \$33,224, Airport Operating Revenue and Capital Grants were \$444,565 less than 2015, the Sewer and Water Fund's Operating Revenue and Contributions were \$508,387 less than 2015, the Stormwater Fund's Operating Revenue and Contributions were \$446,922 less than 2015, and the Marina Operating Revenue and Capital Grants decreased by \$15,215 year over year. Airport Grant Revenue was \$506,904 less in 2016 than in 2015. The decreased revenue in the Sewer/Water Funds and Stormwater Fund was due to conveyed infrastructure (Contributions) in 2015 from three subdivisions of \$1,156,870 and \$452,804 respectively. Total Expenses for all Business-type activities increased \$488,609 or 3.4%, compared to 2015. The Sewer and Water Fund expenses increased \$275,766. Expenses in the Stormwater Fund increased \$158,895 over 2015.
- The City's total debt including compensated absences and excluding the Pension Liability, increased by \$721,427 during the current fiscal year. Some General Fund, Golf and Marina debt was refinanced during the fiscal year. The General Fund and Marina Fund added debt in the amounts of \$1,717,000 and \$1,074,558 respectively in 2016. The Net Pension Liability increased \$1,343,889 in 2016.
- The City reduced the total ad valorem property tax rate to 6.3044 mills, holding the operating ad valorem tax rate from 2015, 6.1021, which is in effect, a tax increase and reduced the voter-approved debt millage. The adjusted taxable value (comparable) increased \$76.8 million. This was the second increase after six years of declining property tax values. The voter-approved debt millage decreased from .2642 mills to .2023 mills.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

City Highlights

- The City was awarded grants totaling just over \$1.1 million dollars for various public improvements associated with the Parks and Recreation, Police, Airport, and Marina Departments.
- Stormwater projects were granted \$1,475,000 for improvements in 2016. The main project, improving the North Fletcher area drainage, will be completed in fiscal year 2016/2017.
- The City is seeking approval for almost \$1.6 million dollars in grant funding in fiscal year 2016/2017. More than 75% of the funding will be for the Airport.
- One annexation totaling approximately 9.26 acres and several voluntary sewer/water agreements for future annexations were processed in 2016. One new 48-lot subdivision broke ground in 2016.
- The 8th Street Small Area Plan was adopted, introducing higher-intensity, mixed-use development rights along the City's struggling A1A/South 8th Street corridor and incentivizing redevelopment between Lime Street and Atlantic Avenue.
- Nassau County Commissioners and Fernandina Beach Commissioners ended 2015 by unanimously approving their respective ordinances to create a special taxing district on Amelia Island to pay for periodic beach renourishment. The millage rate levied for 2016 is 0.1021 mills.
- The Planning Department prepared an application for the City to be designated as a "Tree City" USA community for the fourteenth consecutive year.
- The Building Department, in partnership with FEMA, hosted a community workshop on upcoming changes to flood insurance rate maps and special flood hazard areas.
- The Parks and Recreation Department completed the expansion of the restrooms at Central Park in 2016, installed four pickle ball courts, resurfaced the kiddie pool at the Atlantic Rec Center, and installed a new viewing platform overlooking the Greenway.
- The City maintained a Class 6 Community Rating Service rating for fiscal year ending September 30, 2016, resulting in a twenty percent flood insurance discount for properties in the Special Flood Hazard Area.
- The Fernandina Beach Police Department upgraded the in-car video cameras to provide for an automatic download of recorded events, thus eliminating the use of DVDs. This system links to a new high-capacity server dedicated to the storage of videos and paving the way for the integration of body cameras which are due to be placed in service in January, 2017. With the upgraded system in place, court-tested policies relating to body cameras from agencies nationwide have been reviewed and will be incorporated into local policy. All upgrades relating directly to the body cameras were paid for with Impact Fees, thus eliminating the need to utilize General Funds.
- The Police Department is entering its thirteenth year as a fully accredited law enforcement agency by the State of Florida.
- A fire at the City Golf Course maintenance building occurred in June, 2016. Despite the loss of supplies, equipment, and the building, no injuries occurred, and insurance covered the majority of the City's loss.
- For the sixth consecutive year, the City Fire Department contracted with Nassau County to provide Ocean Rescue services to the south end of Amelia Island.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

City Highlights (Concluded)

- The Fire Department instituted an aggressive beach safety program – including texting beach conditions to residents and visitors. No drownings occurred on City-monitored beaches in the 2016 season, and the Ocean Rescue was recognized with the Northeast Florida Regional Council Award for Excellence in Public Safety.
- During 2016, a new fire engine was placed into service.
- The City of Fernandina Beach was a Silver level award winner in 2016 for being one of the Healthiest Companies at the First Coast Worksite Wellness Council (FCWWC) conference.
- The Airport Master Plan and Layout Plan were completed in fiscal year 2015/2016 and the design for a new terminal facility was approved (construction slated to begin in 2017).
- The Utilities Department installed an additional 112 KW solar array (340 panels) to reduce operating costs at the Wastewater Treatment Facility (Phase Five of a Ten-Phase project); completed the sewer replacement project in Old Town; replaced 506 residential water meters to maintain accuracy; completed the sewer and water extension to new home sites on Simmons Road; and provided service to two new sub-divisions.
- The Fleet and Facilities Department held the most successful Recycle/Clean Up event ever with over 800 participants. For the first time at the event, the City partnered with Barnabas, a local non-profit assistance agency, to collect non-perishable food for the Barnabas food pantry. During the year, approximately \$100,000 was earned by selling surplus property.

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 are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The Government-wide Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.

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 government'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 (e.g., uncollected taxes and earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

Government-wide Financial Statements (Concluded)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and inter-governmental 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 reflects the City's basic services, including general government, police, fire, protective inspections, public works, cultural and recreation. Property taxes, utility services taxes, gas taxes, and sales taxes, along with the City's utility tax transfers, finance the majority of these services. The Business-type Activities reflect private sector-type operations, including water, wastewater, solid waste management, airport, marina and golf course, where the fee for service typically covers all or most of the cost of operation including depreciation.

The government-wide financial statements can be found on pages 14 and 15.

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, 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 government's *near-term* financing requirements.

Because the focus of governmental fund financial statements 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 maintains thirteen 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, community redevelopment fund, and capital improvement fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual budget for all of its governmental funds. A budgetary comparison statement has been provided for the major governmental funds and general fund departments to demonstrate compliance with this budget. The budgetary comparisons can be found on pages 57 through 59.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

Proprietary Funds

The City maintains two different types of proprietary funds, enterprise funds, and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its golf course, airport, sanitation, sewer/water, stormwater, and marina operations. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its vehicle maintenance activities, utility billing, and utility administration. The utility related internal service funds predominantly benefit the business-type activities rather than governmental functions, and have been included with business-type activities in the government-wide financial statements. The vehicle maintenance internal service funds predominantly benefit governmental functions and have been included with governmental activities in the government-wide financial statements.

Proprietary fund reporting provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the golf course, airport, sanitation, sewer/water, stormwater, and marina operations, all of which are considered to be major funds of the City. In 2013, the sewer and water funds were combined for reporting purposes. Conversely, the internal service funds are presented in a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 20 through 24 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because 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 fiduciary fund financial statements can be found on pages 25 and 26 of this report.

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 27 through 56 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 budget compliance.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)**

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FYE 2016	FYE 2015	FYE 2016	FYE 2015	FYE 2016	FYE 2015
Current and Other Assets	\$ 14,686,131	\$ 12,075,404	\$ 13,187,201	\$ 10,582,383	\$ 27,873,332	\$ 22,657,787
Capital Assets	25,899,177	25,026,833	58,978,007	60,130,291	84,877,184	85,157,124
Total Assets	40,585,308	37,102,237	72,165,208	70,712,674	112,750,516	107,814,911
Deferred Outflows of Resources	4,086,799	2,163,029	861,486	584,409	4,948,285	2,747,438
Current Liabilities	917,649	1,020,044	1,559,414	1,340,661	2,477,063	2,360,705
Non-Current Liabilities	22,995,227	20,183,263	40,991,555	41,738,203	63,986,782	61,921,466
Total Liabilities	23,912,876	21,203,307	42,550,969	43,078,864	66,463,845	64,282,171
Deferred Inflows of Resources	293,770	274,461	72,902	45,236	366,672	319,697
Net Position:						
Net Investment in Capital Assets	22,255,738	21,363,150	21,758,186	21,519,553	44,013,924	42,882,703
Restricted	3,126,644	2,919,530	631,824	444,527	3,758,468	3,364,057
Unrestricted	(4,916,921)	(6,495,182)	8,012,813	6,208,903	3,095,892	(286,279)
Total Net Position	\$ 20,465,461	\$ 17,787,498	\$ 30,402,823	\$ 28,172,983	\$ 50,868,284	\$ 45,960,481

The largest portion of the City's net position or \$44,013,924 reflects its investment in capital assets (e.g., land, buildings, and equipment). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. An additional portion of the City's net position, \$3,758,468, represents resources that are subject to external restrictions on how they may be used (restricted assets).

The Unrestricted Net Position balance, \$3,095,892, is intended to be a corporate-style measurement of well being (or a bottom line) for the City and its related governmental and business-type activities. The Restricted Net Position balance increased by \$394,411. The 2016 Unrestricted Net Position balance increased \$3,382,171 compared to the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

Statement of Activities

The following schedule presents the revenues and expenses for the current and prior years:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FYE 2016	FYE 2015	FYE 2016	FYE 2015	FYE 2016	FYE 2015
REVENUES						
Program Revenues:						
Charges for Services	\$ 3,463,941	\$ 3,027,624	\$ 16,628,046	\$ 16,077,422	\$ 20,091,987	\$ 19,105,046
Operating Grants and Contrib.	217,650	246,238	0	0	217,650	246,238
Capital Grants and Contrib.	632,805	1,559,532	289,864	2,316,435	922,669	3,875,967
General Revenues:						
Property Taxes	10,356,519	9,894,587	0	0	10,356,519	9,894,587
Franchise and Utility Taxes	3,188,719	3,167,234	0	0	3,188,719	3,167,234
Sales and Use Taxes	2,550,923	2,412,663	0	0	2,550,923	2,412,663
Other Taxes (Insur Premium)	224,176	0	0	0	224,176	0
State Revenue Sharing	309,451	302,846	0	0	309,451	302,846
Investment Earnings	41,351	26,333	14,086	17,373	55,437	43,706
Other	412,372	558,488	153,837	34,860	566,209	593,348
Total Revenues	21,397,907	21,195,545	17,085,833	18,446,090	38,483,740	39,641,635
EXPENSES						
Program Activities						
Governmental Activities:						
General Government	3,789,868	3,720,751	0	0	3,789,868	3,720,751
Public Safety	9,830,929	9,614,391	0	0	9,830,929	9,614,391
Transportation	2,094,050	1,972,165	0	0	2,094,050	1,972,165
Economic Environment	47,184	47,379	0	0	47,184	47,379
Human Services	42,871	172,992	0	0	42,871	172,992
Culture and Recreation	2,685,529	2,964,980	0	0	2,685,529	2,964,980
Interest	93,298	98,484	0	0	93,298	98,484
Business-type Activities:						
Golf	0	0	1,649,065	1,704,365	1,649,065	1,704,365
Airport	0	0	1,147,472	1,131,745	1,147,472	1,131,745
Sanitation	0	0	2,307,671	2,209,587	2,307,671	2,209,587
Sewer & Water	0	0	7,274,661	6,998,895	7,274,661	6,998,895
Stormwater	0	0	435,834	276,939	435,834	276,939
Marina	0	0	2,177,505	2,182,068	2,177,505	2,182,068
Total Expenses	18,583,729	18,591,142	14,992,208	14,503,599	33,575,937	33,094,741
Transfers	(136,215)	(183,836)	136,215	183,836	0	0
Increase/(Decrease) in Net Position	\$ 2,677,963	\$ 2,420,567	\$ 2,229,840	\$ 4,126,327	\$ 4,907,803	\$ 6,546,894

Normal Impacts

There are nine basic (normal) impacts on revenues and expenses as reflected below.

Revenues

Economic Condition—which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas and other tax revenue as well as public spending habits for building permits, elective user fees, and volumes of consumption.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

Normal Impacts (Continued)

Revenues (Concluded)

Increase/Decrease in Commission-approved Rates—while statutes set certain tax rates, the City Commission has significant authority to impose and periodically increase/decrease rates (sanitation, recycling, water, wastewater, stormwater, permitting, recreation user fees, slip rental, and facility rental fees, etc.)

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)—certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

Contribution from the Proprietary Fund—the City owns and operates various utility systems and provides administrative and support services for the utilities. In return, the City receives payments from the utilities. Therefore, the ongoing competitiveness and vitality of the utilities are important to the City's well being.

Market Impacts on Investment Income—due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year-to-year.

Expenses

Introduction of New Programs—within the functional expense categories (General Government, Public Safety – Police and Fire, Public Services, Cultural and Recreation, etc.) individual programs may be added or deleted to meet changing community needs.

Increase/Decrease in Authorized Personnel—changes in service demand may cause the Commission to increase/decrease authorized staffing.

Salary Increases (merit and market adjustment)—the ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

Inflation—while overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals and supplies, fuel, and parts. Some functions may experience unusual commodity specific increases (for example fuel prices).

Current Year Impacts

Revenues

The City's property tax revenue increased by \$461,932 or 4.7% compared to the previous fiscal year. The City's taxable value increased \$76.8 million on a comparable basis. The local economic conditions improved slightly in 2016. Sales Tax Revenue increased \$138,260 or 5.7% in 2016 over 2015.

Total City revenues decreased \$1,157,895 compared to fiscal year 2015 due to Contributed Infrastructure, and land sale proceeds recorded last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)

Current Year Impacts (Concluded)

Expenses

Governmental activities expenses decreased a modest \$7,414, while business activities (enterprise funds) expenses increased \$488,609. See the Statement of Activities on page 15 for a department by department comparison. General Government expenses were \$69,117 higher in 2016 and Transportation expenses were \$121,885 higher in 2016. Culture and Recreation expenses were \$279,451 lower in 2016 due in part to dredging at the Marina and Beach Renourishment expenses in 2015.

THE CITY FUNDS

Governmental Funds

The City adopted GASB Statement No. 54 in 2012 which classifies fund balance in the governmental funds into five categories. These fund balance classifications are described in the notes to the financial statements. As of year-end, the Governmental Funds (as presented on the balance sheet) reported a combined fund balance of \$13,765,413 which is a 23.7% increase over the previous year. Liabilities decreased \$107,543 and assets increased \$2,529,639. The General Fund balance experienced a \$507,311 decrease in Unassigned Fund Balance and an increase of \$318,757 in the portion of the General Fund's Fund Balance now classified as Committed for Emergencies. At the end of 2016, \$3,893,530 is the reported amount as Committed for Emergencies. The Capital Improvement Fund's Fund Balance increased \$1,800,196 due in part to loan proceeds and for funds transferred in for capital improvements. Other Governmental Funds' Fund Balance, which includes the Capital Expansion Fund (Impact fees), decreased \$50,177. Transfers into the General Fund of \$480,000 were from the Enterprise Funds. The General Fund transferred out a total of \$2,098,065: \$345,000 for debt service; a transfer of \$1,133,500 to the Capital Fund; \$237,000 to the Golf Fund; \$307,000 to the Marina Fund; \$21,515 to the Stormwater Fund; and \$50,000 to the Vehicle Maintenance Internal Service Fund.

Business Type Funds

The Enterprise Funds, which include the City's Golf Fund, Airport Fund, Sanitation Fund, Sewer/Water Fund, Stormwater Fund, and Marina, show a combined operating income of \$3,004,599 and an income of \$2,056,873 before transfers. Operating expenses increased by \$656,027 to \$13,623,447. The total net position of \$30,160,462 is \$2,142,388 more than the net position at the beginning of the year. This compares to a \$4,137,766 increase in net position at the end of fiscal year 2015.

Budgetary Highlights

The following is a brief review of the significant budgeting changes from the original budget to the final budget:

- The Total Revenue budget for the General Fund increased by only \$26,500.
- Most of the sectors in the General Government experienced modest changes from the original budget amounts. The exception was the \$186,350 increase in the Human Resources department for the back pay and related benefit costs for the rehired HR Director.
- The Public Safety sector increased their budget by \$120,060.
- The Culture and Recreation budget expenditures increased by \$16,619.
- All other transfers were within departmental groups and did not have a significant effect on the overall budget.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's net investment in capital assets for the governmental activities increased \$872,344 or 3.4%. This is mostly attributable to the addition of all classes of capital assets – equipment, infrastructure, and construction in progress projects. Business-type activities experienced a decrease of \$1,152,284 in net capital assets as depreciation outpaced capital additions.

Additional information on the Capital Assets is presented in detail on pages 40 and 41 of the notes.

Long-term Debt

At the end of the fiscal year, the City had total long-term debt outstanding of \$63,986,782. The total City Net Pension Liability, \$18,421,008 is now included as a long-term obligation as required by GASB 68. The total also includes \$1,982,000 for general obligation debt, and \$3,172,010 for governmental revenue notes payable, the latter includes \$1,717,000 of new debt proceeds. \$35,410,255 is due on the business related revenue bonds and notes. The balance of business related debt is comprised of various other long-term obligations. The City's outstanding debt increased \$2,065,316. The increase is due primarily to the new debt proceeds and an increase in the Net Pension Liability of \$1,343,889.

Additional information on long-term debt can be found in Note 8 on pages 42 through 46 of this report.

Economic Factors

The State of Florida, by constitution, does not have a state personal income tax and, therefore, the State operates chiefly 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, business licenses, etc.) for their government activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

For the business-type and certain governmental activities (permitting, recreational programs, etc.) the user (of services) pays a related fee (or charge) associated therewith.

The City strongly encourages economic development. Construction activity picked up in 2015. Property values increased in 2016 after decreasing for six straight years as noted in the assessed valuation numbers. Sales tax revenue increased for the third straight year.

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2016
(Concluded)

Economic Factors *(Concluded)*

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 became effective on October 1, 2008, and the ten percent (10%) assessment cap on non-homestead property became effective on January 1, 2009.

Based on information received from the Nassau Property Appraiser's Office in 2008, the estimated annual loss of property tax revenues for our City from the additional homestead exemption and the \$25,000 exemption for tangible personal property was approximately \$360,000. There is no accurate way to determine the impact of the portability and assessment cap on non-homestead property provisions in terms of potential loss of property tax revenues. However, the employment of the roll back rate calculations should mean that property taxes, in dollars, should hold.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional financial information, contact the City's Comptroller at City of Fernandina Beach, 204 Ash Street, Fernandina Beach, Florida 32034, (904) 310-3325.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Investments	\$ 12,966,096	\$ 10,416,396	\$ 23,382,492
Receivables, Net	315,956	1,091,456	1,407,412
Due from Other Governments	428,034	94,715	522,749
Internal Balances	25,000	(25,000)	0
Inventories	45,617	100,196	145,813
Restricted Assets:			
Cash and Investments	0	1,497,535	1,497,535
Capital Assets, Net	25,899,177	58,978,007	84,877,184
Prepays	905,428	11,903	917,331
Total Assets	40,585,308	72,165,208	112,750,516
Deferred Outflows of Resources			
Unamortized Refunding Loss	0	138,224	138,224
Pension Related	4,086,799	723,262	4,810,061
Total Deferred Outflows of Resources	4,086,799	861,486	4,948,285
Liabilities			
Accounts Payable and Accrued Expenses	807,423	895,960	1,703,383
Unearned Revenue	86,838	147,219	234,057
Accrued Interest	23,388	115,294	138,682
Deposits	0	400,941	400,941
Noncurrent Liabilities:			
Due Within One Year	1,942,664	2,065,253	4,007,917
Due in More Than One Year	21,052,563	38,926,302	59,978,865
Total Liabilities	23,912,876	42,550,969	66,463,845
Deferred Inflows of Resources			
Pension Related	293,770	72,902	366,672
Net Position			
Net Investment in Capital Assets	22,255,738	21,758,186	44,013,924
Restricted for:			
Building Inspection	964,522	0	964,522
Public Safety	67,271	0	67,271
Debt Service	42,382	0	42,382
Community Development	109,681	0	109,681
Capital Improvements	1,942,788	631,824	2,574,612
Unrestricted	(4,916,921)	8,012,813	3,095,892
Total Net Position	\$ 20,465,461	\$ 30,402,823	\$ 50,868,284

See accompanying notes.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA 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	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 3,789,868	\$ 105,652	\$ 26,460	\$ 0	\$ (3,657,756)	\$ 0	\$ (3,657,756)
Public Safety	9,830,929	1,925,961	191,190	129,951	(7,583,827)	0	(7,583,827)
Transportation	2,094,050	0	0	205,315	(1,888,735)	0	(1,888,735)
Economic Environment	47,184	0	0	0	(47,184)	0	(47,184)
Human Services	42,871	0	0	0	(42,871)	0	(42,871)
Culture and Recreation	2,685,529	1,432,328	0	297,539	(955,662)	0	(955,662)
Interest on Long-term Debt	93,298	0	0	0	(93,298)	0	(93,298)
Total Governmental Activities	18,583,729	3,463,941	217,650	632,805	(14,269,333)	0	(14,269,333)
Business-type Activities							
Golf	1,649,065	1,270,514	0	0	0	(378,551)	(378,551)
Airport	1,147,472	663,190	0	104,699	0	(379,583)	(379,583)
Sanitation	2,307,671	2,254,588	0	0	0	(53,083)	(53,083)
Sewer and Water	7,274,661	9,897,960	0	159,785	0	2,783,084	2,783,084
Stormwater	435,834	277,181	0	0	0	(158,653)	(158,653)
Marina	2,177,505	2,264,613	0	25,380	0	112,488	112,488
Total Business-type Activities	14,992,208	16,628,046	0	289,864	0	1,925,702	1,925,702
Total Government Activities	\$ 33,575,937	\$ 20,091,987	\$ 217,650	\$ 922,669	(14,269,333)	1,925,702	(12,343,631)
					10,356,519	0	10,356,519
					3,188,719	0	3,188,719
					772,617	0	772,617
					309,451	0	309,451
					1,778,306	0	1,778,306
					224,176	0	224,176
					412,372	153,837	566,209
					41,351	14,086	55,437
					(136,215)	136,215	0
					16,947,296	304,138	17,251,434
					2,677,963	2,229,840	4,907,803
					17,787,498	28,172,983	45,960,481
					\$ 20,465,461	\$ 30,402,823	\$ 50,868,284

See accompanying notes.

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

	<u>General Fund</u>	<u>Community Redevelopment Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Investments	\$ 7,285,451	\$ 1,000	\$ 2,503,921	\$ 3,172,071	\$ 12,962,443
Receivables:					
Accounts, Net of Allowance for Uncollectible Accounts	315,344	0	0	0	315,344
Assessments Receivable					
Due from Other Funds	25,000	0	0	0	25,000
Due from Other Governments	272,981	0	145,045	10,008	428,034
Prepaid Expenses	905,428	0	0	0	905,428
Total Assets	<u>8,804,204</u>	<u>1,000</u>	<u>2,648,966</u>	<u>3,182,079</u>	<u>14,636,249</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Expenses	653,188	0	79,128	51,682	783,998
Unearned Revenue	86,838	0	0	0	86,838
Total Liabilities	<u>740,026</u>	<u>0</u>	<u>79,128</u>	<u>51,682</u>	<u>870,836</u>
Fund Balances					
Nonspendable:					
Prepays	905,428	0	0	0	905,428
Restricted for:					
Building Inspection	964,522	0	0	0	964,522
Public Safety	1,662	0	0	65,609	67,271
Debt Service	38,066	0	0	4,316	42,382
Community Development	0	1,000	0	109,681	110,681
Capital Improvements	0	0	1,510,571	1,942,788	3,453,359
Committed for:					
Conservation and Resource Management	87,990	0	0	0	87,990
Historial District Trust	3,585	0	0	0	3,585
Greenway Trust	2,166	0	0	0	2,166
Cemetery	0	0	0	933,449	933,449
Emergencies	3,893,530	0	0	0	3,893,530
Assigned for:					
Capital Improvements	0	0	1,059,267	0	1,059,267
Cemetery	0	0	0	74,554	74,554
Subsequent Year's Budget	1,191,699	0	0	0	1,191,699
Unassigned:					
General Fund	975,530	0	0	0	975,530
Total Fund Balances	<u>8,064,178</u>	<u>1,000</u>	<u>2,569,838</u>	<u>3,130,397</u>	<u>13,765,413</u>
Total Liabilities and Fund Balances	<u>\$ 8,804,204</u>	<u>\$ 1,000</u>	<u>\$ 2,648,966</u>	<u>\$ 3,182,079</u>	<u>\$ 14,636,249</u>

See accompanying notes.

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

Fund Balance - Total Governmental Funds	\$	13,765,413
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		25,530,537
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 Pensions	\$ 4,086,799	
Deferred Inflows Related to Pensions	<u>(293,770)</u>	3,793,029
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Long-term Liabilities	(22,951,139)	
Accrued Interest	<u>(23,388)</u>	(22,974,527)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are reported with governmental activities.		<u>351,009</u>
Net Position of Governmental Activities	\$	<u><u>20,465,461</u></u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

	General Fund	Community Redvelopment Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes, Licenses, and Permits	\$ 16,794,649	\$ 0	\$ 0	\$ 3,900	\$ 16,798,549
Intergovernmental	1,148,178	0	396,328	117,030	1,661,536
Fines and Forfeitures	28,408	0	0	60,715	89,123
Charges for Services	1,366,014	0	0	128,614	1,494,628
Other	315,914	1,000	3,377	715,768	1,036,059
Total Revenues	19,653,163	1,000	399,705	1,026,027	21,079,895
Expenditures					
General Government	3,495,078	0	19,658	183	3,514,919
Public Safety	9,651,135	0	0	118,277	9,769,412
Transportation	1,591,826	0	128,126	0	1,719,952
Economic Environment	47,184	0	0	0	47,184
Human Services	37,913	0	0	0	37,913
Culture and Recreation	1,957,926	0	240,473	92,781	2,291,180
Debt Service:					
Principal	133,051	0	192,948	369,000	694,999
Interest	23,381	0	18,787	55,484	97,652
Capital Outlay	333,236	0	1,261,387	673,989	2,268,612
(Total Expenditures)	(17,270,730)	0	(1,861,379)	(1,309,714)	(20,441,823)
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,382,433	1,000	(1,461,674)	(283,687)	638,072
Other Financing Sources (Uses)					
Proceeds from Notes Payable	572,173	0	2,643,936	0	3,216,109
Payment on Note Refunding	(565,918)	0	(464,866)	0	(1,030,784)
Transfers in	480,000	0	1,133,500	349,050	1,962,550
Transfers (out)	(2,098,065)	0	(50,700)	0	(2,148,765)
Total Other Financing Sources (Uses)	(1,611,810)	0	3,261,870	349,050	1,999,110
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	770,623	1,000	1,800,196	65,363	2,637,182
Fund Balances, Beginning of Year	7,293,555	0	769,642	3,065,034	11,128,231
Fund Balances, End of Year	\$ 8,064,178	\$ 1,000	\$2,569,838	\$ 3,130,397	\$ 13,765,413

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

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

Net Change in Fund Balance - Total Governmental Funds \$ 2,637,182

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for Capital Assets	\$ 2,267,661	
Loss on Disposal of Fixed Assets	(13,969)	
Contributions of Capital Assets	205,315	
(Current Year Depreciation)	<u>(1,614,673)</u>	844,334

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Repayments of Principal	694,999	
Proceeds from Debt Issuance	(3,216,109)	
Refund of Notes Payable	1,030,784	
Net Pension Liability	(1,174,071)	
Compensated Absences	(32,654)	
Other Postemployment Benefits	(103,393)	
Accrued Interest Payable	<u>4,354</u>	(2,796,090)

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 Inflows Related to Pensions	1,923,770	
Deferred Outflows Related to Pensions	<u>(19,309)</u>	1,904,461

Internal service funds are used by management to charge the cost of certain activities, such as the costs of the central garage, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

88,076

Change in Net Position of Governmental Activities \$ 2,677,963

See accompanying notes.

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

	Business-type Activities - Enterprise Funds						Total	Internal Services Fund
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer and Water Fund	Stormwater Fund	Marina Fund		
Assets								
Current Assets:								
Cash and Investments	\$ 1,434	\$ 1,063,777	\$ 155,245	\$ 8,612,030	\$ 368,865	\$ 5,600	\$ 10,206,951	\$ 213,098
Receivables:								
Accounts, Net of Allowance for								
Uncollectible Accounts	0	42,104	206,894	814,423	26,779	(2,182)	1,088,018	4,050
Due from Other Governments	0	59,709	0	0	0	35,006	94,715	0
Due from Other Funds	0	0	0	935,000	0	0	935,000	0
Prepaid Expenses	8,289	590	0	0	0	0	8,879	3,024
Inventories	56,616	0	0	27,434	0	16,146	100,196	45,617
Total Current Assets	66,339	1,166,180	362,139	10,388,887	395,644	54,570	12,433,759	265,789
Noncurrent Assets:								
Restricted Assets:								
Cash and Investments	0	9,150	66,615	1,056,639	9,847	355,284	1,497,535	0
Capital Assets, Net, Where								
Applicable, of Accumulated								
Depreciation	1,868,511	13,581,846	1,778	33,724,193	4,611,776	5,131,756	58,919,860	426,788
Total Noncurrent Assets	1,868,511	13,590,996	68,393	34,780,832	4,621,623	5,487,040	60,417,395	426,788
Total Assets	1,934,850	14,757,176	430,532	45,169,719	5,017,267	5,541,610	72,851,154	692,577
Deferred Outflows of Resources								
Unamortized Loss on Refunding	0	0	0	138,224	0	0	138,224	0
Pension Related	0	23,084	0	700,178	0	0	723,262	0
Total Deferred Outflows of Resources	0	23,084	0	838,402	0	0	861,486	0

See accompanying notes.

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2016
 CITY OF FERNANDINA BEACH, FLORIDA
 (Concluded)**

	Business-type Activities - Enterprise Funds							
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer and Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
Liabilities								
Current Liabilities:								
Accounts Payable and Accrued Expenses	\$ 63,288	\$ 24,233	\$ 182,093	\$ 369,490	\$ 132,909	\$ 111,181	\$ 883,194	\$ 36,192
Current Portion of Capital Leases Payable	0	0	0	0	40,290	0	40,290	0
Current Portion of Revenue Bonds Payable	98,787	60,000	0	1,390,000	0	306,000	1,854,787	0
Accrued Interest on Bonds Payable	158	1,445	0	109,536	2,741	1,414	115,294	0
Customer Deposits	0	9,100	66,615	315,379	9,847	0	400,941	0
Due to Other Funds	935,000	0	0	0	0	25,000	960,000	0
Unearned Revenue	119,888	27,331	0	0	0	0	147,219	0
Compensated Absences	0	10,989	0	140,260	0	0	151,249	63,015
Total Current Liabilities	1,217,121	133,098	248,708	2,324,665	185,787	443,595	4,552,974	99,207
Noncurrent Liabilities:								
Revenue Bonds Payable, Long-term Portion	434,468	345,000	0	31,775,147	0	3,222,000	35,776,615	0
Capital Leases Payable, Long-term Portion	0	0	0	0	41,637	0	41,637	0
Other Postemployment Benefits	8,287	8,287	0	248,016	0	0	264,590	0
Net Pension Liability	0	94,136	0	2,749,324	0	0	2,843,460	0
Total Noncurrent Liabilities	442,755	447,423	0	34,772,487	41,637	3,222,000	38,926,302	0
Total Liabilities	1,659,876	580,521	248,708	37,097,152	227,424	3,665,595	43,479,276	99,207
Deferred Inflows of Resources								
Pension Related	0	2,133	0	70,769	0	0	72,902	0
Net Position								
Net Investment in Capital Assets Restricted	1,335,256	13,176,846	1,778	697,270	4,529,849	1,959,040	21,700,039	426,788
Unrestricted	0	0	0	631,824	0	0	631,824	0
Unrestricted	(1,060,282)	1,020,760	180,046	7,511,106	259,994	(83,025)	7,828,599	166,582
Total Net Position	\$ 274,974	\$14,197,606	\$ 181,824	\$ 8,840,200	\$4,789,843	\$ 1,876,015	30,160,462	\$ 593,370
Adjustment to Reflect the Consolidation of Internal Service Fund Activities							242,361	
Net Position of Business-type Activities							\$ 30,402,823	

See accompanying notes.

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

	Business-type Activities - Enterprise Funds						Internal Services Fund	
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer and Water Fund	Stormwater Fund	Marina Fund		Total
Operating Revenues								
Charges for Services	\$ 1,270,514	\$ 0	\$ 2,254,588	\$ 9,196,718	\$ 277,181	\$ 0	\$ 12,999,001	\$ 1,631,839
Fees, Rentals, and Other	0	663,190	0	701,242	0	2,264,613	3,629,045	5,187
Total Operating Revenues	<u>1,270,514</u>	<u>663,190</u>	<u>2,254,588</u>	<u>9,897,960</u>	<u>277,181</u>	<u>2,264,613</u>	<u>16,628,046</u>	<u>1,637,026</u>
Operating Expenses								
Personal Services	7,646	132,082	0	1,790,795	0	38,442	1,968,965	881,595
Materials, Supplies, and Other	1,372,227	202,009	2,305,731	2,163,386	249,776	1,747,223	8,040,352	763,337
Depreciation and Amortization	251,224	793,693	1,940	2,076,991	183,317	306,965	3,614,130	20,623
(Total Operating Expenses)	<u>(1,631,097)</u>	<u>(1,127,784)</u>	<u>(2,307,671)</u>	<u>(6,031,172)</u>	<u>(433,093)</u>	<u>(2,092,630)</u>	<u>(13,623,447)</u>	<u>(1,665,555)</u>
Operating (Loss) Income	<u>(360,583)</u>	<u>(464,594)</u>	<u>(53,083)</u>	<u>3,866,788</u>	<u>(155,912)</u>	<u>171,983</u>	<u>3,004,599</u>	<u>(28,529)</u>
Nonoperating Revenues (Expense)								
Interest Income	0	0	510	13,576	0	0	14,086	0
Other Nonoperating Income (Expense)	123,345	0	19,204	11,288	0	0	153,837	103,357
Interest Expense	(17,968)	(19,688)	0	(1,280,241)	(2,741)	(84,875)	(1,405,513)	0
Total Nonoperating Revenues (Expense)	<u>105,377</u>	<u>(19,688)</u>	<u>19,714</u>	<u>(1,255,377)</u>	<u>(2,741)</u>	<u>(84,875)</u>	<u>(1,237,590)</u>	<u>103,357</u>
(Loss) Income Before Contributions and Operating Transfers	<u>(255,206)</u>	<u>(484,282)</u>	<u>(33,369)</u>	<u>2,611,411</u>	<u>(158,653)</u>	<u>87,108</u>	<u>1,767,009</u>	<u>74,828</u>
Capital Grants and Contributions	<u>0</u>	<u>104,699</u>	<u>0</u>	<u>159,785</u>	<u>0</u>	<u>25,380</u>	<u>289,864</u>	<u>0</u>
Transfers								
Transfers in	237,000	0	0	0	21,515	307,000	565,515	100,700
Transfers (out)	0	0	(60,000)	(420,000)	0	0	(480,000)	0
Total Transfers	<u>237,000</u>	<u>0</u>	<u>(60,000)</u>	<u>(420,000)</u>	<u>21,515</u>	<u>307,000</u>	<u>85,515</u>	<u>100,700</u>
Change in Net Position	<u>(18,206)</u>	<u>(379,583)</u>	<u>(93,369)</u>	<u>2,351,196</u>	<u>(137,138)</u>	<u>419,488</u>	<u>2,142,388</u>	<u>175,528</u>
Net Position, Beginning of Year	<u>293,180</u>	<u>14,577,189</u>	<u>275,193</u>	<u>6,489,004</u>	<u>4,926,981</u>	<u>1,456,527</u>	<u>28,018,074</u>	<u>417,842</u>
Net Position, End of Year	<u>\$ 274,974</u>	<u>\$ 14,197,606</u>	<u>\$ 181,824</u>	<u>\$ 8,840,200</u>	<u>\$ 4,789,843</u>	<u>\$ 1,876,015</u>	<u>\$ 30,160,462</u>	<u>\$ 593,370</u>
							<u>\$ 2,142,388</u>	
							<u>87,452</u>	
							<u>\$ 2,229,840</u>	

See accompanying notes.

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

	Business-type Activities - Enterprise Funds						Total	Internal Services Fund
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer and Water Fund	Stormwater Fund	Marina Fund		
Cash Flows from Operating Activities								
Cash Received from Customers and Others	\$ 1,306,321	\$ 633,196	\$ 2,297,010	\$ 10,036,270	\$ 281,810	\$ 2,254,002	\$ 16,808,609	\$ 1,649,263
Cash Paid to Suppliers	(1,467,829)	(210,949)	(2,302,310)	(2,032,402)	(119,373)	(1,660,687)	(7,793,550)	(776,094)
Cash Paid to Employees	(6,918)	(106,708)	0	(1,789,089)	0	(38,442)	(1,941,157)	(858,308)
Net Cash Provided by (Used in) Operating Activities	(168,426)	315,539	(5,300)	6,214,779	162,437	554,873	7,073,902	14,861
Cash Flows from Noncapital Financing Activities								
Due to/from Other Funds	53,000	0	0	307,000	0	(335,000)	25,000	(74,278)
Nonoperating Revenues (Expenses)	125,298	0	19,204	11,288	0	0	155,790	25,434
Operating Transfers in	237,000	0	0	0	21,515	307,000	565,515	100,700
Operating Transfers (out)	0	0	(60,000)	(420,000)	0	0	(480,000)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	415,298	0	(40,796)	(101,712)	21,515	(28,000)	266,305	51,856
Cash Flows from Capital and Related Financing Activities								
Principal Paid on Revenue Bonds	(118,171)	(60,000)	0	(1,349,252)	0	677,458	(849,965)	0
Proceeds from the Sale of Capital Assets	0	0	0	0	0	0	0	25,620
Principal Paid on Capital Leases	(30,582)	0	0	0	(38,985)	0	(69,567)	0
Acquisition and Construction of Capital	(77,865)	(151,308)	0	(1,147,964)	(56,017)	(823,222)	(2,256,376)	(43,969)
Interest Paid	(19,187)	(19,902)	0	(1,404,539)	(4,045)	(106,822)	(1,554,495)	0
Capital Grants	0	137,301	0	0	0	25,381	162,682	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	(245,805)	(93,909)	0	(3,901,755)	(99,047)	(227,205)	(4,567,721)	(18,349)
Cash Flows from Investing Activities								
Interest and Other Nonoperating Revenues	0	0	510	13,576	0	0	14,086	0
Net Cash Provided by (Used in) Investing Activities	0	0	510	13,576	0	0	14,086	0
Net Increase (Decrease) in Cash and Cash Equivalents	1,067	221,630	(45,586)	2,224,888	84,905	299,668	2,786,572	48,368
Cash and Cash Equivalents, Beginning of Year	367	851,297	267,446	7,443,781	293,807	61,216	8,917,914	164,730
Cash and Cash Equivalents, End of Year	\$ 1,434	\$ 1,072,927	\$ 221,860	\$ 9,668,669	\$ 378,712	\$ 360,884	\$ 11,704,486	\$ 213,098

See accompanying notes.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

	Business-type Activities - Enterprise Funds						Total	Internal Services Fund
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer and Water Fund	Stormwater Fund	Marina Fund		
<u>Included on the Accompanying Balance Sheet Under the Following Captions</u>								
Current Assets:								
Cash and Investments	\$ 1,434	\$ 1,063,777	\$ 155,245	\$ 8,612,030	\$ 368,865	\$ 5,600	\$ 10,206,951	\$ 213,098
Restricted Assets:								
Cash and Investments	0	9,150	66,615	1,056,639	9,847	355,284	1,497,535	0
Total	<u>\$ 1,434</u>	<u>\$ 1,072,927</u>	<u>\$ 221,860</u>	<u>\$ 9,668,669</u>	<u>\$ 378,712</u>	<u>\$ 360,884</u>	<u>\$ 11,704,486</u>	<u>\$ 213,098</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u>								
Operating Income (Loss)	\$ (360,583)	\$ (464,594)	\$ (53,083)	\$ 3,866,788	\$ (155,912)	\$ 171,983	\$ 3,004,599	\$ (28,529)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:								
Depreciation and Amortization	251,224	793,693	1,940	2,076,991	183,317	306,965	3,614,130	20,623
Power Costs Recovered in Advance (Return)	0	(590)	0	0	0	398	(192)	851
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):								
Accounts Receivable	0	(14,874)	40,879	133,594	4,165	(2,297)	161,467	11,386
Due from Other Governmental Units	0	0	0	0	0	(8,712)	(8,712)	0
Inventories	10,605	0	0	0	0	2,282	12,887	(4,980)
Prepaid Expenses	211	0	0	27	465	0	703	0
Accounts Payable and Accrued Expenses	(106,416)	(8,940)	3,421	130,958	129,938	84,254	233,215	(7,778)
Unearned Revenues	35,806	(14,480)	0	0	0	0	21,326	0
Customer Deposits	0	(50)	1,543	4,716	464	0	6,673	0
Compensated Absences	0	10,989	0	81,745	0	0	92,734	23,288
Other Post Employment Benefits	727	708	0	21,483	0	0	22,918	0
Net Pension Liability	0	22,207	0	147,611	0	0	169,818	0
Deferred Inflows of Resources - Pension	0	916	0	26,750	0	0	27,666	0
Deferred Outflows of Resources - Pension	0	(9,446)	0	(275,884)	0	0	(285,330)	0
Total Adjustments	<u>192,157</u>	<u>780,133</u>	<u>47,783</u>	<u>2,347,991</u>	<u>318,349</u>	<u>382,890</u>	<u>4,069,303</u>	<u>43,390</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (168,426)</u>	<u>\$ 315,539</u>	<u>\$ (5,300)</u>	<u>\$ 6,214,779</u>	<u>\$ 162,437</u>	<u>\$ 554,873</u>	<u>\$ 7,073,902</u>	<u>\$ 14,861</u>
<u>Supplemental Disclosure of Noncash Activities</u>								
Contributed Assets	\$ 0	\$ 0	\$ 0	\$ 159,785	\$ 0	\$ 0	\$ 159,785	\$ 0
Amortization of Bond Premium	0	0	0	(124,354)	0	0	(124,354)	0
Amortization of Refunding Loss	0	0	0	8,253	0	0	8,253	0

See accompanying notes.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA

	<u>General Employees' Pension Plan</u>	<u>Firefighters' and Police Officers' Pension Plan</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 1,112,573	\$ 1,307,641	\$ 2,420,214
Interest Receivable	35,475	47,068	82,543
Contributions Receivable	22,873	26,509	49,382
Prepaid Benefits	105,457	123,725	229,182
Investments, at Fair Value:			
U.S. Government Bonds and Bills	387,762	468,161	855,923
Mortgages and Federal Agency Securities	1,651,566	2,038,585	3,690,151
Corporate Bonds	2,186,439	2,753,466	4,939,905
Real Estate Fund	1,647,238	1,749,286	3,396,524
Equities	10,893,188	12,219,675	23,112,863
Total Investments	<u>16,766,193</u>	<u>19,229,173</u>	<u>35,995,366</u>
Total Assets	<u>18,042,571</u>	<u>20,734,116</u>	<u>38,776,687</u>
Liabilities			
Accounts Payable	<u>0</u>	<u>0</u>	<u>0</u>
Net Position			
Held in Trust for Pension Benefits	<u>\$ 18,042,571</u>	<u>\$ 20,734,116</u>	<u>\$ 38,776,687</u>

See accompanying notes.

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

	General Employees' Pension Plan	Firefighters' and Police Officers' Pension Plan	Total
Additions			
Contributions:			
State of Florida	\$ 0	\$ 224,177	\$ 224,177
Plan Members	318,307	294,312	612,619
Employer	1,574,758	1,285,152	2,859,910
Total Contributions	<u>1,893,065</u>	<u>1,803,641</u>	<u>3,696,706</u>
Investment Earnings:			
Interest and Dividends	385,527	445,990	831,517
Net Increase in the Fair Value of Investments	1,180,921	1,258,229	2,439,150
Investment Expenses	(89,958)	(107,305)	(197,263)
Total Investment Earnings	<u>1,476,490</u>	<u>1,596,914</u>	<u>3,073,404</u>
Total Additions	<u>3,369,555</u>	<u>3,400,555</u>	<u>6,770,110</u>
Deductions			
Benefit Payments	1,795,941	1,607,404	3,403,345
Administrative Expense	62,804	58,076	120,880
(Total Deductions)	<u>(1,858,745)</u>	<u>(1,665,480)</u>	<u>(3,524,225)</u>
Change in Net Position	1,510,810	1,735,075	3,245,885
Net Position, Beginning of Year	<u>16,531,761</u>	<u>18,999,041</u>	<u>35,530,802</u>
Net Position, End of Year	<u>\$ 18,042,571</u>	<u>\$ 20,734,116</u>	<u>\$ 38,776,687</u>

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Fernandina Beach, Florida (the City) conform to generally accepted accounting principles for governmental entities. The following is a summary of significant accounting policies:

A. Reporting Entity

The City is a municipality governed by a Commission Manager form of Government. The City was incorporated in 1951 pursuant to Chapter 27543, Laws of Florida. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The City has one blended component unit, the Community Redevelopment Agency of Fernandina Beach (CRA). The CRA was established to provide a method of eliminating blighted areas, expanding employment opportunities, and providing an environment for the social and economic growth of an area designated by Resolution 2004-71 in 2005. The City Commission serves as the Governing Board of the CRA. In addition, the City has operational responsibility for the CRA. Therefore, it was determined that the CRA should be treated as a blended component unit, and included as part of the primary government for financial reporting purposes. The CRA is presented in the financial statements of the City as a special revenue fund.

This report also includes the accounts and transactions of the following entities, which do not satisfy the definition of component units because they are not legally separate from the City:

- City of Fernandina Beach General Employees' Pension Plan
- City of Fernandina Beach Firefighters' and Police Officers' Pension Plan

B. Government-wide and Fund 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 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 services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

- The government reports the following major governmental funds:
 - The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
 - The *community redevelopment fund* accounts for the activities of the City's CRA. These fund revenues are primarily from ad valorem tax increment funds which are restricted for expenditures benefitting the redevelopment district. The initial funding for the project was provided by the general fund.
 - The *capital improvement fund* accounts for the resources accumulated for major capital improvements, major equipment purchases, and major repairs and renovations.
- The government reports the following major proprietary funds:
 - The *golf course fund* accounts for the activities of the government's golf course operations.
 - The *airport fund* accounts for the activities of the government's airport operations.
 - The *sewer and water fund* accounts for the activities of the government's water distribution and sewer collection operations.
 - The *sanitation fund* accounts for the activities of the government's sanitation operations.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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

- The government reports the following major proprietary funds: *(Concluded)*
 - The *stormwater fund* accounts for the activities of the government's stormwater drainage system operations.
 - The *marina fund* accounts for the activities of the government's marina operations.
- Additionally, the government reports the following fund types:
 - The *internal services fund* accounts for fleet management, utility billing services, and utility administration services provided to other departments or agencies of the government on a cost reimbursement basis.
 - The *pension trust funds* account for the activities of the general employees' pension and the firefighters'/police officers' pension plans which accumulate resources for defined benefit payments to qualified employees.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position

Cash and Investments

The City maintains an accounting system in which substantially all cash and investments are recorded and are reflected as pooled cash and investments, except for the pension trust fund investments, and certain other investments purchased under the requirements of bond covenants. For purposes of the statement of cash flows for the proprietary fund types, cash and cash equivalents include demand deposits, certificates of deposit, petty cash, state pooled investments, and equity in pooled cash and investments. 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.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, impact fees are restricted for capital expansion. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. For financial reporting purposes, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (General Fund) or \$2,500 (Enterprise Funds) and an estimated useful life in excess of one year. For inventory purposes, capital assets are assets with individual cost of \$1,000 or more. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

Assets	Years
Buildings and Improvements	15-30
Infrastructure	15-60
Vehicles	5
Office Equipment	10
Computer Equipment	5

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position (Continued)

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay, sick pay, and/or personal time off (PTO) benefits. All vacation pay, sick pay, and PTO is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are 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 debt service expenditures.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that future time. Deferred inflows of resources represent the acquisition of net position that is applicable to a future reporting period and, therefore, will not be recognized as an inflow of resources (revenue) until that future time. Deferred outflows have a positive effect on net position, similar to assets, while deferred inflows have a negative effect on net position, similar to liabilities. The City reports deferred outflows of resources related to unamortized refunding losses, as well as pension related deferred inflows and outflows of resources.

Unamortized Refunding Loss—the difference between the net reacquisition cost of new debt and the net carrying amount of old debt. This refunding loss is amortized to expense over the remaining term of the new debt using the straight-line method.

Pension Related—the differences between expected and actual earnings on plan investments and expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability are reported as deferred inflows or outflows of resources, to be recognized in expense as disclosed in Note 9. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year-end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position (Concluded)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's pension plans and additions to/deductions from pension plan net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. Fund Balances

Classifications

Fund balance is reported in five components - nonspendable, restricted, committed, assigned, and unassigned:

- **Nonspendable**—This component of fund balance consists of amounts that cannot be spent because (a) they are not expected to be converted to cash, or (b) they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.
- **Restricted**—This component of fund balance consists of amounts that are constrained either (a) externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments), or (b) by law through constitutional provisions or enabling legislation.
- **Committed**—This component of fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (e.g., ordinance or resolution) of the City's governing authority (the City Commissioners). These committed amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (e.g., ordinance or resolution) employed to constrain those amounts.

The City passed Resolution 2012-128 which formally established a fund balance policy. As part of this policy, the City committed a portion of fund balance for unanticipated events or emergencies. An amount of fund balance in the General Fund at the end of each fiscal year is to be committed equal to the lesser of all otherwise unrestricted, uncommitted, or unassigned balances or 20% of the subsequent year's General Fund budget for expenditures (two months). This committed amount can only be used for the purpose of ensuring the maintenance of services to the public during emergency or disaster situations, or for a major unanticipated event that was not budgeted for in the approved budget. Expenditures from these funds for an emergency must be approved by the City Manager and reported to the City Commission within 30 days of the emergency. Expenditures from these funds made for major unanticipated unbudgeted events require City Commission-approval and subsequent modification to the General Fund budget.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Fund Balances (Concluded)

- **Assigned**—This component of fund balance consists of amounts that are constrained by a less-than-formal action of the City’s governing authority, or by an individual or body to whom the governing authority has delegated this responsibility. With the passage of City Resolution 2012-128, the City has delegated this authority to the City Manager. In addition, residual balances in capital projects and debt service funds are considered assigned for the general purpose of the respective fund.

With the passage of City Resolution 2012-128, the City considers capital project fund balances to be assigned in accordance with the City’s five-year Capital Improvement Plan or by mid-year or year-end budget modifications.

- **Unassigned**—This classification is used for (a) negative unrestricted fund balances in any governmental fund, or (b) fund balances within the General Fund that are not restricted, committed or assigned.

Flow Assumption

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, it is the City’s policy to use committed resources first, then assigned, and then unassigned as needed.

F. New Accounting Pronouncements

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

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

G. Future Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with Other Postemployment

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

G. Future Accounting Pronouncements (Concluded)

Benefits (OPEB), including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosures and required supplementary disclosure requirements for defined contribution OPEB. This standard will be adopted in the fiscal year ending September 30, 2018. The City is currently evaluating the impact the adoption of this Statement will have on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information, including commitments made by the government, should be presented. This standard will be adopted in the fiscal year ending September 30, 2017. The City is currently evaluating the impact the adoption of this Statement will have on its financial statements.

Note 2 - Property Tax Calendar

Property taxes are billed and collected for the City by the County Tax Collector according to Florida Statute, under the following calendar:

Lien Date:	January 1
Levy Date:	October 1
Due Date:	November 1
Delinquency Date:	April 1, of the Following Year

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

The City Charter, Sections 71 through 72, specifies the budget procedures. A brief description is as follows:

- The City Manager is responsible for preparation and submission of a proposed budget to the Commission no later than August 1. The budget includes proposed expenditures and the means to finance them.
- Public hearings are held to obtain taxpayer comments.
- On or before the last day of the fiscal year, the budget is adopted by ordinance.
- The City Manager is authorized to transfer part or all of any unencumbered appropriation balance among programs within a department, office, or agency not to exceed \$7,500. Upon written request by the City Manager, the Commission, by motion, may transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another.
- Budgets are prepared in accordance with accounting principles generally accepted in the United States of America for governmental fund types.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Cash and Investments

At year-end, the carrying amount of the City's cash deposits was \$16,828,658 and the bank balance was \$17,519,166. The bank balance was covered by federal depository insurance or by collateral held by the City's custodial bank which is pledged to a state trust fund that provides security for amounts held in excess of Federal Deposit Insurance Corporation (FDIC) coverage in accordance with the *Florida Security for Public Deposits Act*, Chapter 280, Florida Statutes.

The *Florida Security for Public Deposits Act* established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

The total cash and cash equivalents and investment balances of the City at September 30, 2016, are comprised of the following items:

	<u>Amount</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
Cash and Cash Equivalents			
Petty Cash on Hand	\$ 5,185		
Cash in Checking Accounts	<u>16,828,658</u>		
Total Cash and Cash Equivalents	<u>16,833,843</u>		
Investments			
Investment with State Board of Administration:			
Florida Prime	5,810,855	AAAm	Less Than 1 Year
Certificates of Deposit	<u>2,235,329</u>	Unrated	Less Than 1 Year
Total Investments	<u>8,046,184</u>		
Total Cash, Cash Equivalents, and Investments	<u>\$ 24,880,027</u>		
As Presented in the Accompanying Statement of Net Position:			
Cash and Investments	\$ 23,737,776		
Cash and Equivalents, Restricted	<u>1,142,251</u>		
Total Cash, Cash Equivalents, and Investments	<u>\$ 24,880,027</u>		

Governmental entities are required to record investments at fair value unless an exception applies and disclose the fair value measurement and hierarchy. Paragraph 69 of GASB 72 lists several investments that should be measured as described in GASB 31 which includes investments in nonparticipating interest-earning investment contracts (certificates of deposit) and money market investments that have a maturity at the time of purchase of one year or less. At September 30, 2016, the City had certificates of deposits which are recorded at cost and are excluded from fair value measurement.

The City's investment with the State Board of Administration (Florida Prime) qualifies under the provisions of GASB Statement No. 79, to be measured at amortized cost for financial reporting purposes. The Florida Prime generally has no limitations or restrictions on participant withdrawals including redemption notices, maximum transaction amounts and redemption gates.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 4 - Cash and Investments (Continued)

Restricted Cash

Restricted cash and cash equivalents at September 30, 2016, in the Enterprise Funds are as follows:

<u>Enterprise Fund</u>	<u>Customer Deposits</u>	<u>Renewal and Replacement</u>	<u>Debt Service</u>	<u>Impact Fees</u>	<u>Project Costs</u>	<u>Total</u>
Sanitation	\$ 66,615	\$ 0	\$ 0	\$ 0	0	\$ 66,615
Sewer and Water	315,279	200,000	229,542	311,818	0	1,056,639
Stormwater	9,847	0	0	0	0	9,847
Marina	0	0	0	0	355,284	355,284
Airport	9,150	0	0	0	0	9,150
Total	<u>\$ 400,891</u>	<u>\$ 200,000</u>	<u>\$ 229,542</u>	<u>\$ 311,818</u>	<u>\$ 355,284</u>	<u>\$ 1,497,535</u>

The City's pension trust funds contain cash and money market funds of \$2,420,214. Listed below are the investments and maturities in the City's pension trust funds at September 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Years</u>
Equities	\$ 23,112,863	\$ 23,112,863	\$ 0	\$ 0	\$ 0
Mortgages	3,643,392	1,343	30,923	117,824	3,493,302
U.S. Government Securities	855,923	0	80,943	774,980	0
Federal Agency Securities	46,759	0	0	0	46,759
Corporate Bonds	4,939,905	226,547	3,253,542	1,459,816	0
Real Estate Fund	3,396,524	3,396,524	0	0	0
Total	<u>\$ 35,995,366</u>	<u>\$ 26,737,277</u>	<u>\$ 3,365,408</u>	<u>\$ 2,352,620</u>	<u>\$ 3,540,061</u>

Authorized Investments

The City has adopted an investment policy for operating funds pursuant to Florida State Statutes. The objectives of the policy are to provide safety of capital, liquidity of funds, and investment income in that order of importance, as authorized by Florida Statutes, 218.415. The City's authorized investments include the following:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the *Florida Interlocal Cooperation Act* as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality ratings (AAA/AA) from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes.
- Direct Obligations of the United States Treasury
- Federal Agencies and Instrumentalities
- Derivative products and margin purchases are expressly prohibited.

Florida Statute 218.415 authorizes the City to invest in the state pools and in obligations of the United States Treasury and agencies. The state pools are 2a7-like pools, carried at amortized cost, which approximates market. A 2a7-like pool is not registered with the SEC as an investment

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Cash and Investments (Continued)

Authorized Investments (Concluded)

company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*, which comprises the rules governing money market funds. Thus, these pools operate essentially as money market funds. Throughout the year and as of September 30, 2016, the pools contained certain floating and adjustable rate securities which were indexed based on the prime rate and/or one and three-month LIBOR rates.

The Pension Boards have also adopted formal investment policies for each of the pension plans which conform to Florida Statutes. Authorized investments of the pension plans are as follows:

Equities

- Must be traded on a national exchange or electronic network.
- Not more than 5% of the plans' assets, at the time of purchase, shall be invested in the 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.
- Additional criteria may be outlined by the investment manager.

Fixed Income

- All fixed income investments shall have a minimum rating of investment grade or higher as reported by a major credit rating service.
- The value of bonds issued by any single corporation shall not exceed 10% of the total fund.
- The value of bonds denominated in U.S. dollars that are issued by a foreign bank or corporation shall not exceed 15% of the total fund.
- Additional criteria may be outlined by the investment manager.

Money Market

- The money market fund or STIF options provided by the plan's custodian.
- Maintain a minimum rating of Standard and Poor's A1 or Moody's P1.

Risk Disclosure

The City's investments conform to the provisions of Florida Statutes, Section 218.415. The following items discuss the City and pension funds' exposure to various risks in primarily the fixed rate portions of their investment portfolios:

Interest Rate Risk—The City has fixed rate investments that would be subject to interest rate risk. The City's investment policy states that investment maturities will be structured to match known cash needs and anticipated cash flow requirements. Currently, all of the City's investments have maturities of less than one year. The City pension plan investment policies do not have any restrictions as to the maturity or duration of fixed income securities.

Custodial Credit Risk—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City and the pension plans generally utilize third party custodians to help manage custodial credit risk.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Cash and Investments (Continued)

Risk Disclosure (Concluded)

Concentration of Credit Risk—The pension funds’ investment policies and practices require investments to be diversified to the extent practicable to control the risk of loss resulting from an overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are purchased and sold. No more than 5% of the plans’ assets shall be invested in the common stock or capital 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. The value of bonds issued by any one single corporation shall not exceed 10% of the total fund. The value of bonds denominated in U.S. dollars that are issued by a foreign bank or corporation shall not exceed 15% of the total fund. Investments in corporate common stock and convertible bonds shall not exceed 75% of plan assets at market value. Foreign securities (including equity and fixed income securities) shall not exceed 25% of plan assets at market value.

Fair Value Measurements

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

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

The fair value measurements for the City’s pension trust fund investments are as follows at September 30, 2016:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Equities	\$ 23,112,863	\$ 23,112,863	\$ 0	\$ 0
Mortgages	3,643,392	0	3,643,392	0
U.S Government Securities	855,923	0	855,923	0
Federal Agency Securities	46,759	0	46,759	0
Corporate Bonds	4,939,905	0	4,939,905	0
Total Investments Measured at Fair Value	32,598,842	\$ 23,112,863	\$ 9,485,979	\$ 0
			Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investments Measured at the Net Asset Value (NAV)	Amount	Unfunded Commitments		
Real Estate Fund	\$ 3,396,524	\$ 0	Quarterly	10 Business Days
Total Investments	\$ 35,995,366			

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Cash and Investments (Concluded)

Fair Value Measurements (Concluded)

U.S Government Obligations are valued based on prices quoted in active markets and are categorized as Level 1 in the fair value hierarchy. Federal Agency Securities are categorized as Level 1 or Level 2, depending on whether the individual securities are quoted in active markets, otherwise they are valued using matrix pricing techniques that value securities based on their relationship to benchmark quotes prices. Corporate bonds, corporate ABSs, and municipal bonds are valued using quoted prices for similar securities in active markets and are categorized as Level 2 in the fair value hierarchy. Real Estate funds are valued at Net Asset Value (NAV) which is determined using certified annual appraisals of investment properties held by the fund.

Credit Quality Risk—Credit quality risk is the risk that investments in debt securities will default. The City’s investment policy authorizes investment in SEC registered securities with the highest credit quality ratings (AAA/AA) from nationally recognized rating agencies. The City’s pension plans’ investment policy requires that fixed income securities have a minimum rating of investment grade or higher as reported by a major credit rating service. Any money market funds must have a minimum rating of Standard and Poor’s A1 or Moody’s P1.

The credit quality distribution for the City’s pension trust fund investments with credit exposure as a percentage of the total pension investment is as follows:

<u>Type Investment</u>	<u>Credit Rating</u>	<u>Percent of Total</u>
Equities	Unrated	62.6%
U.S. Government Securities	AAA	3.0%
Other Government Securities	AA-	.1%
Federal Agency Securities	AA+	.2%
Mortgages	AAA	.4%
Mortgages	AA+	9.1%
Mortgages	AA	.6%
Mortgages	AA-	.3%
Mortgages	A+	.6%
Mortgages	Unrated	.4%
Real Estate	Unrated	7.0%
Corporate Bonds	AA	.5%
Corporate Bonds	AA-	.6%
Corporate Bonds	A+	1.5%
Corporate Bonds	A	2.2%
Corporate Bonds	A-	3.3%
Corporate Bonds	BBB+	4.4%
Corporate Bonds	BBB	2.3%
Corporate Bonds	BBB-	.9%

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 5 - Receivables

Receivables as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Accounts Receivable</u>	<u>Assessments Receivable</u>	<u>Allowance</u>	<u>Net Total Receivables</u>
Governmental Activities				
General	\$ 759,570	\$ 0	\$ (444,226)	\$ 315,344
Internal Service - Central Garage	612	0	0	612
Total Governmental Activities	<u>\$ 760,182</u>	<u>\$ 0</u>	<u>\$ (444,226)</u>	<u>\$ 315,956</u>
Business-type Activities				
Airport	\$ 45,670	\$ 0	\$ (3,566)	\$ 42,104
Sanitation	223,235	0	(16,341)	206,894
Sewer and Water	882,523	0	(68,101)	814,422
Stormwater	27,897	0	(1,118)	26,779
Marina	0	0	(2,182)	(2,182)
Internal Service - Utility Billing	3,439	0	0	3,439
Total Business-type Activities	<u>\$ 1,182,765</u>	<u>\$ 0</u>	<u>\$ (91,308)</u>	<u>\$ 1,091,456</u>

Note 6 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 372,054	\$ 732,820	\$ (372,054)	\$ 732,820
Land	10,648,834	0	0	10,648,834
Total Capital Assets Not Being Depreciated	11,020,888	732,820	(372,054)	11,381,654
Capital Assets Being Depreciated:				
Buildings and Improvements	17,254,117	504,823	(36,697)	17,722,243
Equipment, Furniture, Fixtures, and Vehicles	7,154,565	1,285,236	(775,972)	7,663,829
Infrastructure	21,107,057	475,212	0	21,582,269
Total Capital Assets Being Depreciated	45,515,739	2,265,271	(812,669)	46,968,341
Less Accumulated Depreciation:				
Buildings and Improvements	(9,365,073)	(580,423)	22,729	(9,922,767)
Equipment, Furniture, Fixtures, and Vehicles	(5,714,021)	(596,940)	668,741	(5,642,220)
Infrastructure	(16,430,700)	(455,131)	0	(16,885,831)
Total Accumulated Depreciation	(31,509,794)	(1,632,494)	691,470	(32,450,818)
Total Being Depreciated, Net	14,005,945	632,777	(121,199)	14,517,523
Total Governmental Activities Capital Assets, Net	<u>\$ 25,026,833</u>	<u>\$ 1,365,597</u>	<u>\$ (493,253)</u>	<u>\$ 25,899,177</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 6 - Capital Assets (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 738,790	\$ 695,135	\$ 0	\$ 1,433,925
Construction in Progress	529,729	689,445	(529,729)	689,445
Total Capital Assets, Not Being Depreciated	1,268,519	1,384,580	(529,729)	2,123,370
Capital Assets Being Depreciated:				
Buildings and Improvements	107,385,163	1,206,212	0	108,591,375
Equipment, Furniture, Fixtures, and Vehicles	5,745,154	405,533	(286,204)	5,864,483
Total Capital Assets Being Depreciated	113,130,317	1,611,745	(286,204)	114,455,858
Less Accumulated Depreciation:				
Buildings and Improvements	(48,758,552)	(3,351,761)	0	(52,110,313)
Equipment, Furniture, Fixtures, and Vehicles	(5,509,993)	(265,169)	284,254	(5,490,908)
Total Accumulated Depreciation, Net	(54,268,545)	(3,616,930)	284,254	(57,601,221)
Total Being Depreciated, Net	58,861,772	(2,005,185)	(1,950)	56,854,637
Total Business-type Activities Capital Assets, Net	\$ 60,130,291	\$ (620,605)	\$ (531,679)	\$ 58,978,007

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General Government	\$ 147,443
Public Safety	555,757
Transportation	444,447
Culture and Recreation	467,026
Internal Service Fund - Garage	17,821
Total	\$ 1,632,494
Business-type Activities	
Golf	\$ 251,224
Airport	793,693
Sanitation	1,940
Sewer and Water	2,076,991
Stormwater	183,317
Marina	306,965
Internal Service Funds – Utility	2,800
Total	\$ 3,616,930

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2016, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Marina	\$ 25,000
Sewer and Water Fund	Golf Fund	935,000
		<u>\$ 960,000</u>

The interfund amounts were used to cover deficits in cash in balances. Of the interfund borrowing between the Sewer and Water fund and the Golf fund, \$935,000 is not expected to be repaid within one year.

Interfund Transfers:

	<u>Transfers In</u>							<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Golf Fund</u>	<u>Marina Fund</u>	<u>Stormwater Fund</u>	<u>Internal Services Fund</u>	
Transfers (Out)								
General Fund	\$ 0	\$ 1,133,500	\$ 349,050	\$ 237,000	\$ 307,000	\$ 21,515	\$ 50,000	\$2,098,065
Capital								
Improvements	0	0	0	0	0	0	50,700	50,700
Sanitation Fund	60,000	0	0	0	0	0	0	60,000
Sewer and Water Fund	420,000	0	0	0	0	0	0	420,000
Total	<u>\$ 480,000</u>	<u>\$ 1,133,500</u>	<u>\$ 349,050</u>	<u>\$ 237,000</u>	<u>\$ 307,000</u>	<u>\$ 21,515</u>	<u>\$ 100,700</u>	<u>\$2,628,765</u>

The interfund transfers were used to assist with funding of expenses/expenditures.

Note 8 - Long-term Debt

Capital Leases

The City has entered into two lease agreements as a lessee for financing golf carts and as a lessee for financing a fire truck. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date of the lease.

The golf carts future minimum lease obligations and the net present value of these minimum lease payments as of September 30, were as follows:

<u>Year Ending September 30</u>	<u>Business-type Activities</u>
2017	\$ 43,030
2018	43,030
Total Minimum Lease Payments (Amounts Representing Interest)	<u>86,060</u>
Present Value of Minimum Lease Payments	<u>\$ 81,927</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 8 - Long-term Debt (Continued)

Capital Leases (Concluded)

The fire truck future minimum lease obligations and the net present value of these minimum lease payments as of September 30, were as follows:

Year Ending September 30	Governmental Activities
2017	\$ 94,565
2018	94,565
2019	94,565
2020	94,565
2021	47,284
Total Minimum Lease Payments (Amounts Representing Interest)	425,544
Present Value of Minimum Lease Payments	\$ 396,264

General Obligations Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The General Obligation Bonds, Series 2001, with an original issuance amount of \$6,000,000 were used to acquire environmentally sensitive lands and for other parks and recreation improvements. On October 20, 2010, the City refinanced the Series 2001 General Obligation Bonds with the Series 2010, General Obligation Refunding Notes. The total amount of the refunding was \$4,033,000. The purpose of the refunding was to obtain lower borrowing costs. The notes mature in 2021.

General obligation notes are direct obligations and pledge the full faith and credit of the City. The outstanding General Obligation Refunding Notes, Series 2010, are as follows:

Purpose	Interest Rate	Amount
Governmental Activities	2.36%	\$ 1,982,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30	Principal	Interest
2017	\$ 380,000	\$ 46,775
2018	386,000	37,807
2019	395,000	28,698
2020	404,000	19,376
2021	417,000	9,841
Total	\$ 1,982,000	\$ 142,497

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 8 - Long-term Debt (Continued)

Revenue Bonds and Notes

The City also issues bonds and revenue notes where the City pledges income derived from the acquired or constructed assets or other governmental fees and taxes to pay debt service. Revenue bonds and notes outstanding at year-end are as follows:

Issue and Purpose	Interest Rate	Amount	Maturity Date
Government Activities			
Public Safety:			
Capital Improvement Revenue Refunding Notes, Series 2016A	1.42%	\$ 572,173	2021
Culture and Recreation:			
Capital Improvement Revenue Refunding Notes, Series 2016A	1.42%	2,203,573	2021
Total Government Activities Revenue Bonds and Notes		<u>\$ 2,775,746</u>	
Business-type Activities			
Sewer and Water:			
Utility System Subordinate Refunding Revenue Note, Series 2015	2.19%	\$ 3,989,000	2024
Utility System Refunding Bonds, Series 2013A	3% -5%	26,955,000	2033
Marina:			
Capital Improvement Revenue Refunding Notes, Series 2016B	1.92%	3,528,000	2026
Airport:			
Revenue Notes, 2007	4.28%	405,000	2022
Golf:			
Capital Improvement Revenue Refunding Notes, Series 2016A	1.42%	533,255	2021
Total Business-type Activities Revenue Bonds and Notes		<u>\$ 35,410,255</u>	

Governmental activities revenue bonds and notes debt service requirements to maturity are as follows:

Year Ending September 30	Principal	Interest
2017	\$ 514,213	\$ 37,148
2018	554,478	32,114
2019	560,350	24,240
2020	568,738	16,328
2021	577,967	8,207
Total	<u>\$ 2,775,746</u>	<u>\$ 118,037</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 8 - Long-term Debt (Continued)

Revenue Bonds and Notes (Concluded)

Business-type activities revenue bonds and notes debt service requirements to maturity are as follows:

Year Ending September 30	Principal	Interest
2017	\$ 1,854,787	\$ 1,452,820
2018	1,943,522	1,397,227
2019	2,016,650	1,320,459
2020	2,098,262	1,240,572
2021	2,180,034	1,156,568
2022-2026	10,727,000	4,569,077
2027-2031	9,955,000	2,511,950
2032-2036	4,635,000	350,500
Total	\$ 35,410,255	\$ 13,999,173

During September 2016, the City issued the Capital Improvement Refunding and Revenue Notes, Series 2016A in the amount of \$3,309,000 and issued the Marina Refunding and Revenue Notes, Series 2016B in the amount of \$3,528,000. The purpose of these issues were to refund the Marina Revenue Note, Series 2009, the Capital Improvement Refunding Revenue Notes, Series 2010, the Capital Improvement Refunding Revenue Note, Series 2011, and to provide funding for certain project costs.

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 2,351,000	\$ 0	\$ (369,000)	\$ 1,982,000	\$ 380,000
Revenue Notes Payable	1,312,683	2,775,746	(1,312,683)	2,775,746	514,213
Capital Leases	0	440,363	(44,099)	396,264	0
Compensated Absences	1,004,278	728,221	(684,048)	1,048,451	1,048,451
Other Postemployment Benefits	1,111,825	103,393	0	1,215,218	0
Net Pension Liability	14,403,477	1,174,071	0	15,577,548	0
Total Governmental Activities	20,183,263	5,221,794	(2,409,830)	22,995,227	1,942,664
Business-type Activities					
Revenue Bonds and Notes	36,251,968	4,061,254	(4,902,967)	35,410,255	1,854,787
(Deferred Amounts for Issuance Discounts)	2,353,753	0	(132,606)	2,221,147	0
Total Revenue Bonds and Notes Payable	38,605,721	4,061,254	(5,035,573)	37,631,402	1,854,787
Capital Leases	151,494	0	(69,567)	81,927	40,290
Compensated Absences	65,674	217,832	(113,330)	170,176	170,176
Other Postemployment Benefits	241,672	22,918	0	264,590	0
Net Pension Liability	2,673,642	169,818	0	2,843,460	0
Total Business-type Activities	41,738,203	4,471,822	(5,218,470)	40,991,555	2,065,253
Total Long-term Obligations	\$ 61,921,466	\$ 9,693,616	\$(7,628,300)	\$ 63,986,782	\$ 4,007,917

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 8 - Long-term Debt (Concluded)

Pledged Revenue

Pledged revenues on the City's outstanding debt for the year ended September 30, 2016, was as follows:

		<u>Revenue Pledged</u>	<u>Pledged Through</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Principal and Interest Payments</u>	<u>Revenue Received</u>	<u>Estimated Percentage Pledged</u>
Governmental Activities								
General Obligation Refunding Notes, Series 2010	Voter Approved Ad Valorem Tax		2021	\$ 4,033,000	\$ 1,982,000	\$ 420,129	\$ 345,000	122%
Refunding Note Series 2016A Governmental Portion			2021	2,775,746	2,775,746	36,708	N/A	N/A
Business-type Activities								
Refunding Note Series 2016A Golf Portion			2021	533,254	533,255	158	N/A	N/A
Utility System Refunding Bonds, Series 2013A	Net Utility Revenue		2033	29,720,000	26,955,000	2,356,850		
Utility System Subordinate Refunding Revenue Note, Series 2015	Net Utility Revenue		2024	4,285,000	3,989,000	388,745	5,284,533	52%
						2,745,595		
Revenue Note, Series 2007	Airport Lease Income		2022	850,000	405,000	79,688	633,564	13%
						79,688		
Marina Refunding Note 2016B			2026	3,528,000	3,528,000	1,414	N/A	N/A

Note 9 - Employee Pension Plans

General Employees' Pension Plans (GEPP)

- *Plan Description*—All regular full-time City employees who are not classified as full-time sworn police officers or firefighters are eligible to participate in the GEPP, a single-employer, defined benefit pension plan.
- *Plan Administration*—The GEPP is administered by a Board of Trustees established by City Ordinance. The Board of Trustees is comprised of two Commission appointees, two members elected by the membership, and a fifth member elected by the other four and appointed by the Commission. GEPP provides retirements, disability, and death benefits to plan members. These benefits are established and can be amended by City Ordinance. Revisions to the plan were effective in 2007, allowing vesting in the plan to occur after six years of credited service instead of ten.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 9 - Employee Pension Plans (Continued)

General Employees' Pension Plans (GEPP) (Concluded)

- *Plan Membership*—Plan membership as of October 1, 2015 and 2014, consisted of the following:

	October 1, 2015	October 1, 2014
Retirees and Beneficiaries		
Inactive Plan Members or Beneficiaries		
Currently Receiving Benefits	79	78
Inactive Plan Members Entitled to but not yet Receiving Benefits	34	30
Active Plan Members	84	87
Total Retirees and Beneficiaries	197	195

- *Benefits Provided*—The plan provides retirement, termination, disability, and death benefits. Normal retirement is the earlier of: 1) age 55 and 25 years of credited service, 2) age 65 and 6 years of credited service, or 3) 35 years of credited service regardless of age. Early retirement is the earlier of: 1) age 55 and have completed 6 years of credited service, or 2) 25 years of credited service, regardless of age. Vesting in the plan occurs 100% after six years of credited service. Employees employed prior to February 1, 1993, had the option to elect either Plan A or Plan B. Any employees employed after February 1, 1993, are under Plan A. Benefits under Plan A are 2.75% of Average Final Compensation times Credited Service. Benefits under Plan B are 1.9% of Average Final Compensation times Credited Service. Benefits under early retirement are reduced by 2% per year. Eligibility for disability is based upon the date through which service is considered incurred from the date of employment, while non-service incurred is based upon 10 years of credited service. Disability benefits are accrued to the date of disability but not less than 42% of average final compensation (Service Incurred) or 25% of average final compensation (non-service incurred). Pre-retirement death benefits for vested employees pay the monthly accrued benefit payable to the designated beneficiary for 10 years beginning at otherwise early (reduced) or normal (unreduced) retirement date. Pre-retirement death benefits for non-vested employees include a refund of accumulated contributions, if any.
- *Funding Policy*—The funding policy is established by City Ordinance. The City's funding policy is to provide amounts recognized to pay current costs and amortize unfunded past service costs over 30 years. Employees who are Plan A members are required to contribute 6.5% of the covered payroll to the plan. Employees who are Plan B members do not contribute to the plan. The City's contribution is actuarially determined. Based on the actuarial valuation performed as of October 1, 2014, the City's required contribution as a percentage of covered payroll was 34.22%.

Police Officers' and Firefighters' Pension Plan (FPOP)

- *Plan Description*—All of the City's full-time police officers and full-time firefighters are eligible to participate in the FPOP, a single-employer, defined benefit pension plan. FPOP provides retirement, disability, and death benefits to Plan members. Plan members vest in the Plan after six years of creditable service. These benefits are established and amended by City Ordinance.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 9 - Employee Pension Plans (Continued)

Police Officers’ and Firefighters’ Pension Plan (FPOP) (Concluded)

- *Plan Administration*—The FPOP is administered by a Board of Trustees established by City Ordinance. The Board consists of five trustees, two of which are appointed by the City Commission, one must be a police officer elected by a majority of the member police officers, one member must be a firefighter elected by the majority of the member firefighters, and the fifth member is elected by the other four members and appointed by the City Commission.
- *Plan Membership*—FPOP Plan membership as of October 1, 2015 and 2014, consisted of the following:

	October 1, 2015	October 1, 2014
Retirees and Beneficiaries		
Inactive Plan Members or Beneficiaries		
Currently Receiving Benefits	45	44
Inactive Plan Members Entitled to but not yet Receiving Benefits	10	11
Active Plan Members	59	60
Total Retirees and Beneficiaries	114	115

- *Benefits Provided*—The plan provides retirement, termination, disability, and death benefits. Normal retirement is the earlier of age 55 and 6 years of credited service or 25 years of credited service, regardless of age. Early retirement is age 50 and 6 years of credited service. Benefits under early retirement are reduced by 3% for each year prior to normal retirement (if employed prior to January 1, 2000, normal retirement date is determined as if the member continued employment). Vesting in the plan occurs 100% after six years of credited service. The member will receive the accrued benefit payable at the otherwise early or normal retirement date. If employed prior to January 1, 2000, early and normal retirement date determined as if the member continued employment. Eligibility for disability is based upon the date through which service is considered incurred from the date of employment, while the non-service incurred date is based upon 10 years of credited service. Disability benefits are accrued to the date of disability but not less than 42% of average final compensation (Service Incurred). Pre-retirement death benefits for vested employees pay the monthly accrued benefit payable to the designated beneficiary for 10 years beginning at otherwise early (reduced) or normal (unreduced) retirement date. Pre-retirement death benefits for non-vested employees include a refund of accumulated contributions without interest.
- *Funding Policy*—The City’s funding policy is to provide for periodic employee rates that are designed to accumulate sufficient assets to pay benefits when due. The employees are required to contribute 7.7% of salary to the Plan. The State of Florida also contributes to the Plan. The City is required to contribute the remaining amounts, per an actuarial valuation, necessary to pay current costs and amortize unfunded past service costs over 30 years. Based on the actuarial valuation performed as of October 1, 2014, the City’s required contribution as a percentage of covered payroll was 39.68%.

Additional Disclosures

The following disclosures pertain to both the GEPP and the FPOP:

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 9 - Employee Pension Plans (Continued)

Additional Disclosures (Continued)

Investments:

- *Investment Policy*—The following table illustrates the GEPP and FPOP Board’s adopted asset allocation policy as of September 30, 2016 and 2015:

Asset Class	Target Allocation
Domestic Equity	55%
International Equity	10%
Broad Market Fixed Income	25%
Real Estate	10%
Total	100%

- *Investment Value*—Equities and fixed income instruments are reported at fair value based upon quoted market prices. Real Estate is reported at fair value based upon appraisals of the underlying assets.
- *Concentrations*—The GEPP and FPOP plans did not hold investments in any one organization that represent 5% or more of their respective fiduciary net positions.
- *Rate of Return*—For the year ended September 30, 2016, the annual money-weighted rate of return on plan investments, net of pension plan investment expenses, was 8.95% for the GEPP and 8.42% for FPOP. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.
- *Deferred Retirement Option Program (DROP)*—For both plans, eligibility for DROP occurs upon satisfaction of normal or early retirement requirements. Participation in DROP cannot be more than 60 months. A DROP member may elect the actual rate of investment return, or 6.5% rate of return. Earnings are credited to DROP each fiscal quarter. The DROP balance as of September 30, 2016, is \$854,863 GEPP and \$227,706 for FPOP.

Measurement Date:

As permitted by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the City has elected to use a measurement date to value the net pension liability and related deferred inflows and outflows as of September 30, 2015, one year prior to the reporting date. The City’s Pension Plans do not issue separate financial statements. Therefore, the disclosures required by GASB 67, *Financial Reporting for Pension Plans*, as of September 30, 2016, are also included below.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 9 - Employee Pension Plans (Continued)

Additional Disclosures (Continued)

Net Pension Liability:

The components of the net pension liability for each plan as of September 30, 2015 (measurement date) and for the year then ended, were as follows:

General Employees'

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2014	\$ 24,916,130	\$ 16,144,339	\$ 8,771,791
Changes for the Year:			
Service Cost	658,841	0	658,841
Interest	1,992,049	0	1,992,049
Contributions - Employer	0	1,291,060	(1,291,060)
Contributions - Employee	0	265,734	(265,734)
Net Investment Income	0	209,869	(209,869)
Differences between Expected and Actual Experience	(458,339)	0	(458,339)
Benefit Payments, including Refunds of Contributions	(1,348,707)	(1,348,707)	0
Administrative Expenses	0	(31,336)	31,336
Net Changes	<u>843,844</u>	<u>386,620</u>	<u>457,224</u>
Balances at September 30, 2015	<u>\$ 25,759,974</u>	<u>\$ 16,530,959</u>	<u>\$ 9,229,015</u>

Police and Fire

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at September 30, 2014	\$ 26,791,601	\$ 18,486,273	\$ 8,305,328
Changes for the Year:			
Service Cost	673,931	0	673,931
Interest	2,135,586	0	2,135,586
Contributions - Employer	0	1,321,071	(1,321,071)
Contributions - State	0	224,969	(224,969)
Contributions - Employee	0	287,839	(287,839)
Net Investment Income	0	216,827	(216,827)
Differences between Expected and Actual Experience	94,951	0	94,951
Benefit Payments, including Refunds of Contributions	(1,515,765)	(1,515,765)	0
Administrative Expenses	0	(32,903)	32,903
Net Changes	<u>1,388,703</u>	<u>502,038</u>	<u>886,665</u>
Balances at September 30, 2015	<u>\$ 28,180,304</u>	<u>\$ 18,988,311</u>	<u>\$ 9,191,993</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 9 - Employee Pension Plans (Continued)

Additional Disclosures (Continued)

Net Pension Liability: (Concluded)

The components of the net pension liability of the sponsor on September 30, 2016, were as follows:

	General Employees'	Police and Fire	Total
Total Pension Liability	\$ 27,354,529	\$ 29,584,744	\$ 56,939,273
Plan Fiduciary Net Position	(18,042,439)	(20,722,472)	(38,764,911)
Net Pension Liability	<u>\$ 9,312,090</u>	<u>\$ 8,862,272</u>	<u>18,174,362</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>65.96%</u>	<u>70.04%</u>	<u>68.08%</u>

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

For the year ended September 30, 2016, the City recognized total pension expense of \$2,501,989 (\$1,206,854 from GEPP and \$1,295,135 from FPOP). The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

	General Employees'	Police and Fire	Total
Contributions Made after the Measurement Date	\$ 1,574,758	\$ 1,509,329	\$ 3,084,087
Net Difference Between Projected and Actual Earnings on Investments	759,690	890,323	1,650,013
Differences Between Expected and Actual Experience	0	75,961	75,961
Total Deferred Outflows of Resources	<u>\$ 2,334,448</u>	<u>\$ 2,475,613</u>	<u>\$ 4,810,061</u>

Deferred Inflows of Resources

	General Employees'	Police and Fire	Total
Differences between Expected and Actual Experience	<u>\$ 366,672</u>	<u>\$ 0</u>	<u>\$ 366,672</u>

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

Year Ended September 30,	General Employees'	Police and Fire	Total
2017	\$ 88,978	\$ 230,864	\$ 319,842
2018	88,979	230,866	319,845
2019	88,979	230,866	319,845
2020	126,082	273,688	399,770

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 9 - Employee Pension Plans (Continued)

Additional Disclosures (Continued)

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of October 1, 2015, updated to September 30, 2016, using the following actuarial assumptions applied to all measurement periods.

	General Employees'
Inflation	2.5%
Salary Increases	Service based
Investment Rate of Return	7.75%
Discount Rate	7.75%
	Police and Fire
Inflation	2.5%
Salary Increases	Service based
Investment Rate of Return	8.00%
Discount Rate	8.00%

For the GEPP plan, the RP 2000 Combined Healthy Table projected to valuation date using scale AA was used in the actuarial valuation. Disabled lives are set forward 5 years. For the FPOP plan, the RP 2000 Combined Healthy Mortality Table, sex distinct was used in the actuarial valuation.

The long-term expected rate of return on pension investments was determined using a building block method in which best-estimate ranges of expected future rates of return (expected returns, net of plan 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 by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the GEPP and FPOP Plans' target asset allocation as of September 30, 2016 and 2015, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Domestic Equity	7.5%
International Equity	8.5%
Broad Market Fixed Income	2.5%
Real Estate	4.5%

Discount Rate:

The discount rate used to measure the total pension liability for the GEPP and FPOP Plan was 7.75% and 8.00%, respectively. The projection of 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 plan's 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 of projected benefit payments to determine the total pension liability. The net pension liability for each plan as of September 30, 2016 and 2015, are as follows:

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 9 - Employee Pension Plans (Concluded)

Additional Disclosures (Concluded)

As of September 30, 2016:

	<u>1% Decrease</u> <u>6.75%</u>	<u>Current</u> <u>Discount Rate</u> <u>7.75%</u>	<u>1% Increase</u> <u>8.75%</u>
General Employee Net Pension Liability	\$ 12,365,003	\$ 9,312,090	\$ 6,751,053

	<u>1% Decrease</u> <u>7.00%</u>	<u>Current</u> <u>Discount Rate</u> <u>8.00%</u>	<u>1% Increase</u> <u>9.00%</u>
Police and Fire Net Pension Liability	\$ 12,197,458	\$ 8,862,272	\$ 6,052,333

As of September 30, 2015:

	<u>1% Decrease</u> <u>7.00%</u>	<u>Current</u> <u>Discount Rate</u> <u>8.00%</u>	<u>1% Increase</u> <u>9.00%</u>
General Employee Net Pension Liability	\$ 11,936,333	\$ 9,229,015	\$ 6,933,149
Police and Fire Net Pension Liability	12,236,959	9,191,993	6,602,289

Note 10 - Other Postemployment Benefits (OPEB)

Plan Description

The City offers postemployment medical, dental, and life insurance benefits to any employee who satisfies the vesting, disability, early or normal retirement provisions of the applicable retirement plan (GERS or FPOP). Eligibility requirements for retirement under the City's two retirement systems may be obtained by writing to the City Clerk, City of Fernandina Beach, 204 Ash Street, Fernandina Beach, Florida 32034, or by calling (904) 277-7305. According to the Substantive Plan, retired police officers, firefighters, and general employees as well as their dependents are permitted to remain covered under the City's medical plans as long as they pay the premium charged by the insurance company for the plan and coverage elected. This conforms to the minimum requirements of governmental employers under Chapter 112.08, Florida Statutes. The plan does not issue separate financial statements.

As of October 1, 2016, the latest actuarial valuation date, there were 163 active participants and 14 retirees (or their spouses) receiving medical benefits. The amount of the contributions required for retiree and dependent coverage may change from time-to-time. Life insurance coverage was not considered other postemployment benefits for purposes of this actuarial valuation.

Funding Policy

Currently the City's OPEB benefits are unfunded. That is, there is no separate trust fund or equivalent arrangement into which the City would make contributions to advance-fund the obligation, as it does for its pension plans. Therefore, the ultimate subsidies which are provided over time are financed directly by the general assets of the City, which are invested in very short-term fixed income instruments. Although an actuarial valuation for OPEBs was completed to measure current year's subsidies and project future subsidies, the City Council has determined that a separate trust fund or equivalent arrangement will not be established.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 10 - Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost is the amount that was expensed for the fiscal year. Since the City's OPEB plan is unfunded, the only offset to that expense comes from premiums paid by the current retirees. These premiums are payroll deducted from the retiree's pension payment. The cumulative difference between the annual OPEB cost since inception and the retiree premiums paid (employer contribution) since inception is called the net OPEB obligation. The total net OPEB obligation is \$1,479,808 and is reflected as a liability in the statement of net pension (\$1,215,218 governmental, \$264,590 business-type). The following table shows the components of the City's annual OPEB cost for the year and the net pension obligation for fiscal year ended September 30, 2016:

Annual Required Contribution (ARC)	\$	283,238
Interest on Prior Net OPEB Obligation		54,140
Adjustment to Prior Net OPEB Obligation		<u>(50,274)</u>
Annual OPEB Cost		<u>\$ 287,104</u>
Net OPEB Obligation, Beginning of Year	\$	1,353,497
Annual OPEB Cost		287,104
Employer Contribution Toward the OPEB Cost		<u>(160,793)</u>
Net OPEB Obligation, End of Year		<u>\$ 1,479,808</u>

The schedule of employer contributions is as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Annual OPEB Cost</u>	<u>Estimated Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Estimated Net OPEB Obligation</u>
2014	\$ 298,430	\$ 170,045	56.98%	\$ 1,219,797
2015	274,572	140,872	51.30%	1,353,497
2016	287,104	160,793	56.01%	1,479,808

Funded Status and Funding Progress

The funded status of the plan is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2012	\$ 0	\$ 2,682,576	\$ 2,682,576	0.00%	\$ 8,354,660	32.1%
10/1/2013	0	2,826,700	2,826,700	0.00%	8,156,197	48.01%
10/1/2014	0	2,484,716	2,484,716	0.00%	8,001,396	31.1%
10/1/2015	0	2,619,242	2,619,242	0.00%	8,321,452	31.5%
10/1/2016	0	2,258,884	2,258,884	0.00%	8,000,000	28.2%

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 10 - Other Postemployment Benefits (OPEB) (Concluded)

Funded Status and Funding Progress (Concluded)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funding status of a plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress immediately following the notes presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the October 1, 2016, actuarial valuation, the entry age normal cost method with an increasing normal cost pattern with salary increase assumptions was used. The actuarial assumptions included a 4% investment rate of return (since there are no invested plan assets held in trust to finance the OPEB obligations, the investment return discount rate is the long-term expectation of investment return on assets held in City funds pursuant to its investment policy) and an annual health care cost trend rate. Per capita costs for medical and dental benefits are assumed to increase 8.5% and 8.0% for pre and post-medical coverage in 2015 and 2016, respectively. This rate decreases at a rate of 0.5% per year until an ultimate rate of 5% is reached. The UAAL, as calculated pursuant to the individual entry age actuarial cost method, is being amortized as a level percent of payroll over a thirty-year period with thirty years remaining. A closed amortization method is used. The assumed rate of payroll growth is a weighted-average of such rates used in pension valuations and is equal to 3.5%.

Note 11 - Other Disclosures

Commitments and Contingencies

Grant Programs:

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects amounts, if any, to be immaterial.

Litigation:

The City is currently involved in various forms of litigation. These cases are either in the early stages of litigation or are not expected to have a material effect on the financial position or results of operations of the City.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)

Note 11 - Other Disclosures (Concluded)

Commitments and Contingencies (Concluded)

Risk Management:

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

Deferred Compensation Plan

The City maintains two deferred compensations plans created in accordance with Internal Revenue Code, Section 457.

Note 12 - Subsequent Event

On October 7, 2016, Hurricane Matthew hit the Fernandina Beach area leaving behind significant amounts of debris and causing extensive damage to the City's related infrastructure, primarily the Marina. The cost of removing debris is estimated at \$671,300 with emergency protective measures, including force labor, amounting to an additional \$122,800. Damages to the City's Marina are estimated at \$3.2 to \$4.3 million dollars. The City's Marina is considered to be impaired, operations have been suspended, and its assets have been written down by almost \$4.0 million in fiscal year ending September 30, 2017. A portion of the costs to repair the damages are expected to be reimbursed by the Federal Emergency Management Agency (FEMA); however, these amounts are not yet known.

REQUIRED SUPPLEMENTARY INFORMATION

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes, Licenses, and Permits	\$ 14,308,586	\$ 14,308,586	\$ 15,071,204	\$ 762,618
Intergovernmental	1,209,428	1,169,428	1,148,178	(21,250)
Fines and Forfeitures	24,700	24,700	27,501	2,801
Charges for Services	1,257,000	1,257,000	1,366,014	109,014
Other	168,535	235,035	315,913	80,878
Total Revenues	16,968,249	16,994,749	17,928,810	934,061
Expenditures				
General Government				
City Commission	280,500	280,500	267,029	13,471
City Clerk	449,213	448,713	402,507	46,206
City Manager	575,905	518,475	422,620	95,855
Finance	612,912	617,362	616,301	1,061
Information Technology	638,578	633,078	486,154	146,924
Personnel/Human Resources	255,973	442,323	376,267	66,056
Legal	299,439	299,439	292,957	6,482
Nondepartmental	268,758	257,759	249,000	8,759
Facilities Maintenance	490,920	490,920	468,541	22,379
Total General Government	3,872,198	3,988,569	3,581,376	407,193
Public Safety				
Police	4,591,886	4,591,886	4,544,157	47,729
Fire	4,266,821	4,333,321	4,238,155	95,166
Community Development	1,198,756	1,252,316	1,154,050	98,266
Total Public Safety	10,057,463	10,177,523	9,936,362	241,161
Transportation				
Streets	1,776,277	1,776,277	1,626,813	149,464
Economic Environment				
Downtown District	55,041	49,291	47,184	2,107
Culture and Recreation				
Library	10,222	21,091	17,464	3,627
Recreation	940,723	946,943	910,654	36,289
Parks	172,814	171,394	167,758	3,636
Peck Center/Gym	405,206	393,716	385,365	8,351
Youth Programs	233,951	246,691	240,900	5,791
Aquatics	305,222	304,922	299,158	5,764
Total Culture and Recreation	2,068,138	2,084,757	2,021,299	63,458
Other Services	44,750	49,250	37,913	11,337

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Concluded)				
Contingency	\$ 120,000	\$ 0	\$ 0	\$ 0
(Total Expenditures)	<u>(17,993,867)</u>	<u>(18,125,667)</u>	<u>(17,250,947)</u>	<u>874,720</u>
Excess of Revenues Over Expenditures	<u>(1,025,618)</u>	<u>(1,130,918)</u>	<u>677,863</u>	<u>1,808,781</u>
Other Financing Sources (Uses)				
Proceeds from Note Payable	0	0	572,173	572,173
Payment on Note Refunding	0	0	(565,918)	(565,918)
Transfers in	2,220,000	2,220,000	2,220,000	0
Transfers (out)	<u>(2,094,015)</u>	<u>(2,098,065)</u>	<u>(2,098,065)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>125,985</u>	<u>121,935</u>	<u>128,190</u>	<u>6,255</u>
Net Change in Fund Balance	<u>\$ (899,633)</u>	<u>\$ (1,008,983)</u>	<u>\$ 806,053</u>	<u>\$ 1,815,036</u>

Explanation of differences between General Fund Budgetary Revenues, Expenditures, and Other Financing Sources (Uses) and GAAP Revenues, Expenditures, and Other Financing Sources (Uses):

Actual Revenue Amounts - Budgetary Basis	\$ 17,928,810
Law Enforcement Trust Fund Revenues (1)	907
Utility Tax Fund Revenues (1)	<u>1,723,446</u>
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	<u>\$ 19,653,163</u>
Actual Expenditure Amounts - Budgetary Basis	\$ (17,250,947)
Law Enforcement Trust Fund Expenses (1)	<u>(19,783)</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	<u>\$ (17,270,730)</u>
Actual Other Financing Sources (Uses) - Budgetary Basis	\$ 128,190
Transfers from Utility Tax Fund (1)	<u>(1,740,000)</u>
Total Other Financing Sources (Uses) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ (1,611,810)</u>

(1) Pursuant to GASB 54, these funds no longer meet the definition of a Special Revenue fund and have been consolidated with the general fund for financial statement reporting purposes.

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
COMMUNITY REDEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Other	\$ 0	\$ 0	\$ 1,000	\$ 1,000
Total Revenues	0	0	1,000	1,000
Expenditures				
Economic Environment	0	0	0	0
(Total Expenditures)	0	0	0	0
 Net Change in Fund Balance	 \$ 0	 \$ 0	 \$ 1,000	 \$ 1,000

GENERAL EMPLOYEES' PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
CITY OF FERNANDINA BEACH, FLORIDA

	September 30, 2016	September 30, 2015	September 30, 2014
Total Pension Liability			
Service Cost	\$ 640,943	\$ 658,841	\$ 638,941
Interest	2,040,323	1,992,049	1,905,236
Differences Between Expected and Actual Experience	(289,022)	(458,339)	0
Changes of Assumptions	996,058	0	0
Benefit Payments	(1,793,747)	(1,348,707)	(1,609,123)
Net Change in Total Pension Liability	1,594,555	843,844	935,054
Total Pension Liability - Beginning	25,759,974	24,916,130	23,981,076
Total Pension Liability - Ending (a)	<u>\$ 27,354,529</u>	<u>\$ 25,759,974</u>	<u>\$ 24,916,130</u>
Plan Fiduciary Net Position			
Contributions - Employer	1,590,471	1,291,060	1,222,791
Contributions - Employee	302,123	265,734	268,700
Net Investment Income	1,445,907	209,869	1,372,873
Benefit Payments	(1,793,747)	(1,348,707)	(1,609,123)
Administrative Expenses	(33,274)	(31,336)	(23,443)
Net Change in Plan Fiduciary Net Position	1,511,480	386,620	1,231,798
Plan Fiduciary Net Position - Beginning	16,530,959	16,144,339	14,912,541
Plan Fiduciary Net Position - Ending (b)	<u>\$ 18,042,439</u>	<u>\$ 16,530,959</u>	<u>\$ 16,144,339</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 9,312,090</u>	<u>\$ 9,229,015</u>	<u>\$ 8,771,791</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.96%	64.17%	64.79%
Covered Employee Payroll	\$ 4,648,051	\$ 4,533,367	\$ 4,133,843
Net Pension Liability as a Percentage of Covered Employee Payroll	200.34%	203.58%	212.19%

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

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

Changes of assumptions:

For measurement date 9/30/2016, as a result of the Experience Study dated November 10, 2016, the Board has made the following changes:

1. Salary Increases - The assumed rate of individual salary increases was changed from a flat 5.0% each year to a service-based table.
2. Mortality Rates - The assumed rates of mortality were changed to match what is used by the Florida Retirement System (FRS) for other than special risk participants.
3. Retirement Rates - The rates for Normal and Early Retirement were modified to reflect historical participant behavior.
4. Withdrawal Rates - The assumed rates of turnover changed from an age based table to a service based table.
5. Investment Return - Lowered from 8.00% to 7.75%

Details of the above assumptions can be found in the Actuarial Assumptions and Methods section of the 10/01/2016 Valuation report. Additionally, all future bases of the Unfunded Actuarial Accrued Liability (beginning with those established on October 1, 2016) will be amortized utilizing a level-dollar approach. Future bases attributed to actuarial gains or losses will be amortized over 10 years, assumption changes amortized over 20 years, and benefit changes amortized over 30 years. Finally, the inflation assumption rate was lowered from 3.00% to 2.50%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

**GENERAL EMPLOYEES' PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Actuarially Determined Contribution	\$ 1,574,760	\$ 1,291,060	\$ 1,222,791
Contributions in Relation to the Actuarially Determined Contribution	1,590,471	1,291,060	1,222,791
Contribution Deficiency (Excess)	<u>\$ (15,711)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	<u>\$ 4,648,051</u>	<u>\$ 4,533,367</u>	<u>\$ 4,133,843</u>
Contributions as a Percentage of Covered Employee Payroll	34.22%	28.48%	29.58%

For the fiscal year 2015, the Covered Employee Payroll figure was not available. Pensionable Salary has been reported instead. Additional years will be added to this schedule annually until 10 years of data is presented.

Differences between the actuarially determined contribution above and the amounts presented in the financial statements are due to certain accruals that resulted from timing differences. These timing differences were not considered to be significant.

NOTES TO SCHEDULE

Valuation Date October 1, 2014

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

Methods and assumptions used to determine contribution rates:

Funding Method: Entry Age Normal Actuarial Cost Method
Amortization Method: Level Percentage of Pay, Closed
Remaining Amortization Period: 30 Years
Mortality: RP 2000 Combined Healthy Table - projected to valuation date using scale AA (previously static). Disabled lives are set forward 5 years.
Inflation: 3.0% per Year
Interest Rate: 8.0% per Year Compounded Annually, Net of Investment Related Expenses
Retirement Age: Normal Retirement: Earlier of: 1) age 55 and 25 years of service, 2) age 65 and 6 years of service, or 3) 35 years of service regardless of age. Also, any Member who has reached normal retirement is assumed to continue employment for one additional year. Commencing with the earliest Early Retirement Age, Members are assumed to retire with an immediate subsidized benefit at the rate of 10% per year.
Disability Rates: See table below. It is assumed that 75% of disablements are service related.
Termination Rates: See table below.
Salary Increases: 5.0% per year until assumed retirement age. Projected salary at retirement is increased 10% to account for non-regular compensation.
Payroll Growth: 1.7% per Year (Previously 2.8%)
Actuarial Asset Method: Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average of Market Value Returns (net of fees). It is possible that over time, this technique will produce an insignificant bias above or below market value.

Termination and Disability Rate Table:

<u>Age</u>	<u>% Terminating During the Year</u>	<u>% Becoming Disabled During the Year</u>
20	7.90%	0.03%
30	7.20%	0.04%
40	5.20%	0.07%
50	2.60%	0.18%

**GENERAL EMPLOYEES' PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Annual Money Weighted Rate of Return Net of Investment Expenses	8.95%	1.31%	9.41%

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

FIREFIGHTERS' AND POLICE OFFICERS' PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
CITY OF FERNANDINA BEACH, FLORIDA

	September 30, 2016	September 30, 2015	September 30, 2014
Total Pension Liability			
Service Cost	\$ 691,242	\$ 673,931	\$ 629,885
Interest	2,244,457	2,135,586	2,065,964
Differences Between Expected and Actual Experience	(583,314)	94,951	0
Changes in Assumptions	658,065	0	0
Contributions - Buy Back	0	0	9,362
Benefit Payments	(1,606,010)	(1,515,765)	(2,242,194)
Net Change in Total Pension Liability	1,404,440	1,388,703	463,017
Total Pension Liability - Beginning	28,180,304	26,791,601	26,328,584
Total Pension Liability - Ending (a)	<u>\$ 29,584,744</u>	<u>\$ 28,180,304</u>	<u>\$ 26,791,601</u>
Plan Fiduciary Net Position			
Contributions - Employer	1,285,152	1,321,071	1,442,276
Contributions - State	228,116	224,969	223,515
Contributions - Employee	293,641	287,839	271,215
Contributions - Buy Back	0	0	9,362
Net Investment Income	1,569,990	216,827	1,579,432
Benefit Payments	(1,606,010)	(1,515,765)	(2,242,194)
Administrative Expenses	(36,728)	(32,903)	(23,615)
Net Change in Plan Fiduciary Net Position	1,734,161	502,038	1,259,991
Plan Fiduciary Net Position - Beginning	18,988,311	18,486,273	17,226,282
Plan Fiduciary Net Position - Ending (b)	<u>\$ 20,722,472</u>	<u>\$ 18,988,311</u>	<u>\$ 18,486,273</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 8,862,272</u>	<u>\$ 9,191,993</u>	<u>\$ 8,305,328</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.04%	67.38%	69.00%
Covered Employee Payroll	\$ 3,813,519	\$ 3,748,766	\$ 3,522,270
Net Pension Liability as a Percentage of Covered Employee Payroll	232.39%	245.20%	235.79%

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

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

Changes of assumptions:

For measurement date 09/30/2016, as a result of of the Experience Study dated August 10, 2106, the Board has adopted the following changes:

1. Salary Increases - The assumed rate of individual salary increases was changed from a flat 5.0% each year to a service-based table.
2. Mortality Rates - The assumed rates of mortality were changed to match what is used by the Florida Retirement System.
3. Retirement Rates - The assumption for Early Retirement changed from a 5% assumption for each year of eligibility to 10%. The assumption for Normal Retirement changed to 50% at immediate eligibility, 50% for those eligible for one year, and 100% for those eligible for at least two years.
4. Withdrawal Rates - The assumed rates of turnover changed from the current service based table to a service-based table with slightly higher rates.

Additionally, all future bases of the Unfunded Actuarial Liability will be amortized utilizing a level-dollar approach. Future bases attributed to actuarial gains or losses will amortized over 10 years, assumption changes amortized over 20 years, and benefit changes amortized over 30 years. Also the inflation assumption rate was lowered from 3.00% to 2.50%, matching the long-term inflation assumption utilized by the Plan's investment consultant.

**FIREFIGHTERS' AND POLICE OFFICERS' PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Actuarially Determined Contribution*	\$ 1,494,900	\$ 1,544,613	\$ 1,665,681
Contributions in Relation to the Actuarially Determined Contribution*	1,513,268	1,546,040	1,665,791
Contribution Deficiency	<u>\$ (18,368)</u>	<u>\$ (1,427)</u>	<u>\$ (110)</u>
Covered Employee Payroll	<u>\$ 3,813,519</u>	<u>\$ 3,748,766</u>	<u>\$ 3,522,270</u>
Contributions as a Percentage of Covered Employee Payroll	39.68%	41.24%	47.29%

The covered employee figure for 2014 fiscal year was not available. Pensionable salary has been reported instead.

*Amounts include the contribution from the State of Florida.

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

Differences between the actuarially determined contribution above and the amounts presented in the financial statements are due to certain accruals that resulted from timing differences. These timing differences were not considered to be significant.

NOTES TO SCHEDULE

Valuation Date October 1, 2014

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

Methods and assumptions used to determine contribution rates:

Funding Method:	Entry Age Normal Actuarial Cost Method
Amortization Method:	Level Percentage of Pay, Closed
Remaining Amortization Period:	30 Years
Mortality:	RP 2000 Combined Healthy Mortality Table, Sex Distinct. Disabled lives are set forward 5 years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
Interest Rate:	8.0% per Year Compounded Annually, Net of Investment Related Expenses
Inflation:	3.0% per Year
Normal Retirement:	Normal Retirement: Earlier of age 55 and 6 years of service, or 25 years of service, regardless of age. Also, any Member who has reached normal retirement is assumed to continue employment for one additional year, commencing with the earliest.
Early Retirement:	Commencing with the earliest Age (50), Members are assumed to retire with an immediate subsidized benefit of 5% per year.
Disability Rates:	See table below. It is assumed that 75% of Disability Retirements are service related.
Termination Rates:	See table below.
Salary Increases:	5.0% per year until assumed retirement age. Projected salary at retirement is increased as follows to account for non-regular compensation.

<u>Service as of 10/1/13</u>	<u>Final Salary Load</u>
5 or more Years	10.0%
Less than 5 Years	5.0%

Prior to October 1, 2013, a 10% load assumption was utilized for all Members.

Payroll Growth:	2.3% per Year
Asset Smoothing Methodology:	The Actuarial Value of Assets is brought forward using the historical four-year geometric average of Market Value Returns (net of fees). Over time, this may result in an insignificant bias that is above or below the Market Value of Assets.
Other Information:	Termination and Disability Rate Table

<u>Age</u>	<u>% Terminating During the Year</u>	<u>% Becoming Disabled During the Year</u>
20	9.30%	0.051%
30	7.90%	0.058%
40	4.30%	0.121%
50	1.10%	0.429%

**FIREFIGHTERS' AND POLICE OFFICERS' PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Annual Money Weighted Rate of Return Net of Investment Expenses	8.42%	1.19%	9.27%

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

**OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
10/01/16	\$ 0	\$ 2,258,884	\$ 2,258,884	0.00%	\$ 8,000,000	28.24%
10/01/15	0	2,619,242	2,619,242	0.00%	8,321,452	31.48%
10/01/14	0	2,484,716	2,484,716	0.00%	8,001,396	31.05%
10/01/13	0	2,826,700	2,826,700	0.00%	8,156,197	34.66%
10/01/12	0	2,682,576	2,682,576	0.00%	8,354,660	32.11%
10/01/11	0	3,915,700	3,915,700	0.00%	8,354,660	30.30%

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTING ENTITIES**

Year Ended September 30,	Annual OPEB Cost	Estimated Amount Contributed	Percentage of Annual OPEB Cost Contributed	Estimated Net OPEB Obligation
2016	\$ 287,104	\$ 160,793	56.01%	\$ 1,479,808
2015	274,572	140,872	51.31%	1,353,497
2014	298,430	170,045	56.98%	1,219,797
2013	285,353	143,341	50.23%	1,091,412
2012	368,700	126,500	34.31%	949,400
2011	349,900	120,400	34.41%	707,200

OTHER INFORMATION

CITY OF FERNANDINA BEACH, FLORIDA

OFFICIALS

AS OF SEPTEMBER 30, 2016

CITY COMMISSIONERS

John A. Miller, Mayor

Robin Lentz, Vice-Mayor

Len Kreger
Timothy Poynter
Roy G. Smith

CITY MANAGER

Dale Martin

CITY CLERK

Caroline Best

CITY ATTORNEY

Tammi E. Bach

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State CSFA Number	Contract Number	Program Amount	Expenditures
Federal Financial Awards					
U.S. Department of Housing and Urban Development					
Pass-through Florida Department of Economic Opportunity: Community Development Block Grants	14.228		87DB-91-04-55-02-H73	\$ 3,628	\$ 3,628
Total U.S. Department of Housing and Urban Development				<u>3,628</u>	<u>3,628</u>
U.S. Department of Justice					
Federal Equitable Sharing Agreement	16.922		N/A	136,397	107,218
Pass-through Florida Department of Law Enforcement: Edward Byrne Memorial Justice Assistance Grant	16.738		2016-JAGD-NASS-2-H4-053	1,929	1,929
Total U.S. Department of Justice				<u>138,326</u>	<u>109,147</u>
U.S. Department of Transportation					
Federal Aviation Administration Airport Improvement Program: Airport Improvement Program: Master Plan and ALP Update	20.106		3-12-0022-024-2014	150,000	4,036
Runway 4-22 Airfield Signage and REIL Replacement	20.106		3-12-0022-025-2016	93,645	16,640
Total U.S. Department of Transportation				<u>243,645</u>	<u>20,676</u>
Total Federal Awards				<u>385,599</u>	<u>133,451</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State CSFA Number	Contract Number	Program Amount	Expenditures
State Financial Assistance Projects					
Florida Department of Environmental Protection					
Nassau County Beach Restoration		37.003	13NA1	\$ 1,534,319	\$ 86,920
				<u>1,534,319</u>	<u>86,920</u>
Florida Department of Transportation					
Aviation Development Grants:					
FDOT: Update Master Plan and Layout Plan		55.004	ARL41	150,000	9,599
FDOT: Design and Construction East Area Security Access and Control		55.004	ARS10	150,000	20,939
FDOT: Design and Construct New Terminal (Welcome Center)		55.004	G0489	550,000	52,570
Total Florida Department of Transportation				<u>850,000</u>	<u>83,108</u>
Total State Financial Assistance				<u>2,384,319</u>	<u>170,028</u>
Total Federal Awards and State Financial Assistance				<u>\$ 2,769,918</u>	<u>\$ 303,479</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE PROJECTS
CITY OF FERNANDINA BEACH, FLORIDA**

Note 1 - General

The accompanying schedule of expenditures of federal awards and state financial assistance projects presents the activity of all federal awards programs and state financial assistance projects of the City of Fernandina Beach, Florida (the City). For the fiscal year ending September 30, 2016, the City's federal or state grant expenditures did not exceed \$750,000. Therefore, a federal or state single audit was not required.

The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2016. All federal awards and state financial assistance received directly from federal agencies or state agencies, as well as federal awards and state financial assistance passed through other governmental agencies, are included in the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards and state financial assistance projects is presented using the same basis of accounting as the fund in which the grant is recorded, generally the accrual or modified accrual basis, as described in Note 1 to the City's financial statements.

Note 3 - De Minimis Indirect Cost Rate Election

The City did not elect to use the 10% de minimis indirect cost rate as covered in §200.414, *Indirect (F&A) costs*, of the Uniform Guidance.

**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**

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fernandina Beach, Florida (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 13, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a 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 over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants

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

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



March 13, 2017
Tallahassee, Florida

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

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) 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 a legal determination of the City's compliance with specified requirements.

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

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, the City, its management, and is not intended to be, and should not be, used by anyone other than these specified parties.



March 13, 2017
Tallahassee, Florida

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MANAGEMENT LETTER

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Fernandina Beach, Florida (the City) as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated March 13, 2017.

Auditors' Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Accountants' Report on an examination conducted in accordance with AICPA *Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated March 13, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

Official Title and Legal Authority

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

Financial Condition

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

Certified Public Accountants

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The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition (Concluded)

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

Annual Financial Report

Sections 10.554(1)(i)5.(b) and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

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

Other Matters

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

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

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, City 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.



March 13, 2017
Tallahassee, Florida