



**Town of Melbourne Beach, Florida  
Financial Statements  
Year Ended September 30, 2012**

# TOWN OF MELBOURNE BEACH, FLORIDA

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Financial Statements

Year Ended September 30, 2012

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# TOWN OF MELBOURNE BEACH, FLORIDA

Town Commission Members and Officials

Year Ended September 30, 2012

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Tom Davis  
*Mayor*

April Evans  
*Vice Mayor*

Jay Gurecki  
Rocco Maglio  
Jean Marshall  
*Commission Members*

Bill Hoskovec  
*Town Manager*

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## Independent Auditors' Report

The Honorable Mayor and Town Commission  
of the Town of Melbourne Beach, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, (the "Town") as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Melbourne Beach, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of the Town of Melbourne Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

Accounting Principles generally accepted in the United States of America require that the management discussion and analysis and the required supplementary information on page 7-13 and 49-54 be presented in relation to 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.

The Honorable Mayor and Town Commission  
of the Town of Melbourne Beach, Florida  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Melbourne Beach, Florida's basic financial statements. The combining schedules on pages 56 through 59 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Carr Riggs & Ingram, LLC*

Melbourne, Florida  
January 28, 2013

## Management's Discussion and Analysis

As management of the Town of Melbourne Beach (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2012.

### Financial Highlights

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2012 fiscal year by \$4,794,172 (net assets). Of this amount, \$3,444,538 is included in Investment in Capital, Net of Related Debt while restricted Net Assets is \$2,207,666.
- The total net assets increased \$29,338, an increase of .62% from the previous year.
- As of the close of fiscal year 2012, the Town's governmental funds reported combined ending fund balances of \$3,622,416, a decrease of \$470,909 in comparison with the prior year. While \$2,366,699 represents the portion restricted by outside parties, \$819,907 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$435,810 of governmental fund balance is nonspendable for current obligations.
- At the end of the 2012 fiscal year, unassigned fund balance for the general fund was \$819,907, or 40.3% of total general fund expenditures.
- The Town's total long term liabilities decreased by \$243,227 during the 2012 fiscal year. This reflects the repayment of outstanding balances for bonds, notes and capital leases. This also reflects an increase in the liability for compensated absences and the addition of a capital lease for equipment.

### Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

The governmental activities of the Town include general government, public safety, physical environment, and recreation.

The government-wide financial statements can be found on pages 17-18 of this report.

**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 Town, 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 Town can be divided into two categories: governmental 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 funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains eight individual governmental funds, including the General Fund, Capital Projects Fund, Debt Service Fund and five nonmajor funds. The nonmajor funds are the Police Education, Historic Preservation and Awareness, Old Town Hall, Stormwater Utility, and Law Enforcement Forfeiture 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, Capital Projects Fund and Debt Service Fund each of which is considered to be a major fund. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-20 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 the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22-23 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 25-46 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 Town's progress in funding its obligation to provide pension benefits, other post employment benefits to its employees, and budget to actual comparison. Required supplementary information can be found on pages 49-54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budget. Combining and individual fund statements and schedules can be found on pages 56-59 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$4,794,172 at the close of the 2012 fiscal year.

By far the largest portion of the Town's net assets (72 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure, and improvements), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining net assets, \$2,207,666 represents resources that are subject to external restrictions on how they may be used. These restrictions relate primarily to externally imposed parameters on spending for the \$3.5 million note. The remaining balance of unrestricted net assets/(deficit), (\$858,032), reflects the fact that available resources are committed already to specific projects of the Town.

	Governmental activities	
	2012	2011
Current and other assets \$	3,857,249	\$ 4,603,487
Capital assets	6,330,838	5,939,520
Total assets	<u>10,188,087</u>	<u>10,543,007</u>
Current liabilities	169,231	310,262
Noncurrent liabilities	5,224,684	5,467,911
Total liabilities	<u>5,393,915</u>	<u>5,778,173</u>
Net assets:		
Invested in capital assets		
net of related debt	3,444,538	3,398,517
Restricted	2,207,666	2,782,649
Unrestricted	(858,032)	(1,416,332)
Total net assets	<u>\$ 4,794,172</u>	<u>\$ 4,764,834</u>

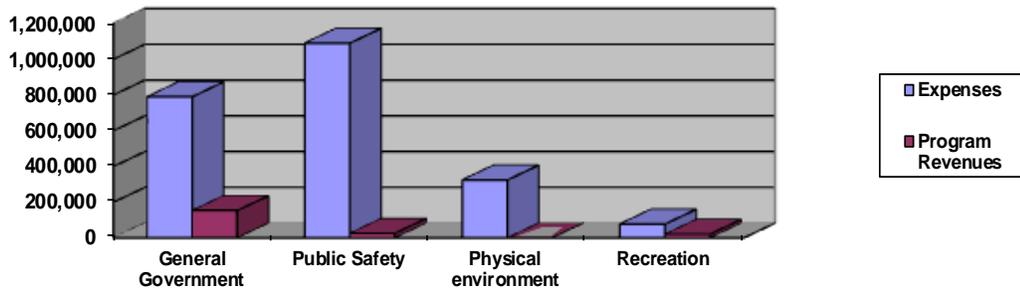
## Town's Changes in Net Assets

	Governmental activities	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 118,378	\$ 108,417
Operating grants and contributions	80,947	83,067
Capital grants and contributions	1,000	238,802
General revenues:		
Property taxes	1,366,146	1,284,355
Other taxes	758,608	786,924
Shared revenues	204,059	205,942
Unrestricted investment earnings	3,199	1,761
Other	23,399	16,073
Total revenues	<u>2,555,736</u>	<u>2,725,341</u>
Expenses:		
General government	789,974	746,758
Public safety	1,089,680	1,134,330
Recreation	77,489	74,942
Physical environment	324,211	441,899
Interest on long-term debt	245,044	250,722
Total expenses	<u>2,526,398</u>	<u>2,648,651</u>
Increase in net assets	29,338	76,690
Net assets - beginning of year	4,764,834	4,688,144
Net assets - end of year	<u>\$ 4,794,172</u>	<u>\$ 4,764,834</u>

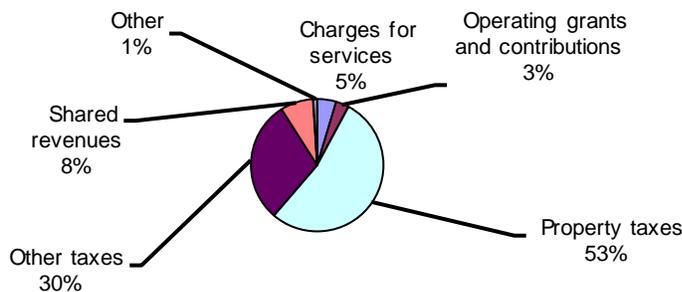
**Governmental activities.** Governmental activities increased the Town's net assets by \$29,338. This amount is primarily attributable to increases in general revenues including property taxes, unrestricted investment earnings, and gain on sale of capital assets. These revenue increases are offset by a decrease in capital grants and contributions and an increase in expenses for general government and recreation and a decrease in public safety, physical environment and interest on long-term debt. Governmental activities increased the Town's assets by \$76,690 in the prior year. Key elements of the difference between the two years change in assets, \$47,352, are as follows:

- The Town's total revenues related to governmental activities decreased by approximately \$169,605 from the prior year. Significant factors that contribute to the decrease in revenues are a \$237,802 decrease in capital grants and contributions due to large grants received in fiscal year 2011 for stormwater projects that were not received in 2012. This was offset by an increase in program revenues as noted above of approximately \$9,961 for charges for services and general revenues as noted above of approximately \$60,801 related to property taxes, other taxes, and other revenues.
- Expenses related to governmental activities decreased by approximately \$122,253 from the prior year. This decrease is primarily related to a decrease of approximately \$44,650 in public safety expenses as a result of a decrease in required contributions for fiscal year 2012 related to the police pension fund and a decrease in physical environment expenses of \$117,678 as a result of large engineering costs expended in fiscal year 2011 related to the grants received in that year. These are offset by an increase in general government of approximately \$43,216.

## Expenses and Program Revenues – Governmental Activities



## Revenues by Source – Governmental Activities



## Financial Analysis of the Government's Funds

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

*Governmental funds.* The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year (2012), the Town's governmental funds reported combined ending fund balances of \$3,622,416, a decrease of \$470,909 in comparison with the prior year. A portion of fund balance is designated as Nonspendable to indicate that it is not available for new spending because it has already been committed: 1) \$97,995 for prepaid items and 2) \$337,815 for an Advance between the General and Capital Projects funds. An additional portion (\$2,366,699) is restricted for various purposes by outside constraints. The largest restriction (\$2,207,666) is for Stormwater Construction. The remaining amount, \$819,907 constitutes unassigned fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Town. At the end of the 2012 fiscal year, unassigned fund balance of the general fund was \$819,907, while total fund balance was \$1,259,841. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (excluding transfers). Unassigned fund balance represents 40.3 percent of total general fund expenditures, while total fund balance represents 61.9 percent of that same amount. The fund balance of the General Fund increased by \$64,955 during the fiscal year. An excess of revenues over expenditures of approximately \$166,820 was offset by approximately \$132,671 of transfers to the debt service fund for debt payments.

The Capital Projects Fund has a fund balance of \$2,210,322. The net decrease in fund balance during the current year in the capital projects fund was \$562,480. The decrease was related to expenditures for various Stormwater projects budgeted for the current year.

The Debt Service Fund has a balance of \$0. Tax revenue in the current year, along with a transfer from the general fund, was utilized to cover debt service payments due in the current year.

Nonmajor Funds has a balance of \$152,253. The net increase in the funds of \$40,979 is attributable to the decrease in physical environment expenditures.

### General Fund Budgetary Highlights

Although the Town inputs the budget by line item, the tracking of the budget is done at the department level. Department budgeting allows management to check budgets for negatives by classifications in accordance with the State of Florida’s Uniform Accounting System Manual.

### Capital Asset and Long-term Liabilities Administration

**Capital assets.** The Town’s investment in capital assets for its governmental funds as of September 30, 2012, amounts to \$6,330,838 (net of accumulated depreciation). This represents a net increase of \$391,318 or a 6.6 percent increase from the previous year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

The additions in the governmental activities are reflected as an increase in equipment, buildings, and other improvements. There was a total increase of \$7,457 in equipment. Major construction in progress increases include \$674,145 expended for stormwater improvements projects. Increase in improvements other than buildings of \$9,540 represents the addition of the Rita Karpie Memorial Overlook. These additions were offset by depreciation expense of \$322,673.

#### Town’s Capital Assets (net of depreciation)

	2012	2011
Land	\$ 897,742	\$ 897,742
Buildings	1,877,125	1,954,129
Improvements other than building	561,108	606,421
Equipment	593,898	677,775
Infrastructure	1,266,719	1,343,352
Construction in progress	1,134,246	460,101
Total	<u>\$ 6,330,838</u>	<u>\$ 5,939,520</u>

Additional information on the Town’s capital assets can be found in Note 3-C on page 34 of this report.

**Long-term Liabilities.** At the end of the 2012 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$4,711,083. Of this debt, \$3,226,083 is secured by a separate ad valorem millage. The remainder of the outstanding debt, \$1,485,000 is secured by specified revenue sources (i.e., revenue bonds).

## **Town's Outstanding Debt**

	<u>2012</u>	<u>2011</u>
Ad Valorem bonds payable	\$ 97,083	\$ 141,863
Revenue bonds payable	1,485,000	1,540,000
Bond premium	36,919	40,437
Deferred loss	(77,133)	(84,542)
Note payable	3,129,000	3,264,000
Capital leases	435,150	470,068
Net OPEB Obligation	4,000	4,000
Compensated absences	114,665	92,085
Total	<u>\$ 5,224,684</u>	<u>\$ 5,467,911</u>

The Town's long-term liabilities decreased by \$243,227 during the current fiscal year. This decrease was attributable to repayment of bonds, notes and capital leases. This decrease also reflects an offsetting increase in the liability for compensated absences and a new capital lease for equipment.

Additional information on the Town's long-term debt can be found in Note 3-F on pages 36-38 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The Town Commission approved a millage rate of 4.2300 for Fiscal Year 2013. The millage rate for Fiscal Year 2012 was 3.9856. The taxable value of real property decreased by .68 percent for Fiscal Year 2012 and is expected to neither increase nor decrease in Fiscal Year 2013.

## **Other Factors**

The Town is close to build out as far as vacant home sites are concerned; however, we are continuing to see a trend towards major remodeling and rebuilding on existing home sites. We anticipate that the Town will continue to issue multiple major single family home building permits per year.

Several cost increases are anticipated in the next fiscal year. Capital outlay expenditures are expected to increase. Additional expenditures for on-going Stormwater projects will be incurred to complete scheduled projects. In addition, repairs to the pier may increase capital outlay expenditures. Extensive review of the Town's health benefits will allow a continued decrease in these costs for fiscal 2013 and a portion of fiscal 2014.

## **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 507 Ocean Avenue, Melbourne Beach, Florida 32951.

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**TOWN OF MELBOURNE BEACH, FLORIDA**

Basic Financial Statements

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# TOWN OF MELBOURNE BEACH, FLORIDA

## Statement of Net Assets - Governmental Activities

September 30, 2012

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### ASSETS

Cash and cash equivalents	\$ 3,532,914
Investments	1,876
Receivables	173,864
Due from other governments	28,598
Prepaid items	97,995
Capital assets (net of accumulated depreciation):	
Land	897,742
Buildings	1,877,125
Improvements other than buildings	561,108
Machinery and equipment	593,898
Infrastructure	1,266,719
Construction in progress	1,134,246
Net bond issuance costs	22,002
Total assets	<u>10,188,087</u>

### LIABILITIES

Accounts payable	56,454
Accrued payroll and related liabilities	34,241
Accrued interest payable	64,552
Unearned revenue	8,209
Deposits	5,775
Noncurrent liabilities:	
Due within one year:	
Revenue bonds payable	102,243
Note payable	141,000
Capital leases	66,584
Compensated absences	57,333
Due in more than one year:	
Revenue bonds payable	1,439,626
Note payable	2,988,000
Capital leases	368,566
Net OPEB obligation	4,000
Compensated absences	57,332
Total liabilities	<u>5,393,915</u>

### NET ASSETS

Invested in capital assets, net of related debt	3,444,538
Restricted for:	
Community development projects	2,207,666
Unrestricted (deficit)	(858,032)
Total net assets	<u>\$ 4,794,172</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

## Statement of Activities - Governmental Activities

Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities:					
General government	\$ 789,974	\$ 80,882	\$ 72,718	\$ -	\$ (636,374)
Public safety	1,089,680	17,981	6,841	1,000	(1,063,858)
Recreation	77,489	19,515	1,388	-	(56,586)
Physical environment	324,211	-	-	-	(324,211)
Interest on long-term debt	245,044	-	-	-	(245,044)
<b>Total governmental activities</b>	<b>\$ 2,526,398</b>	<b>\$ 118,378</b>	<b>\$ 80,947</b>	<b>\$ 1,000</b>	<b>(2,326,073)</b>
General revenues:					
Property taxes					1,366,146
Public utility taxes					542,145
Franchise taxes					216,463
Shared revenues not restricted to specific programs					204,059
Unrestricted investment earnings					3,199
Gain/loss on sale of capital assets					500
Miscellaneous					22,899
Total general revenues					<u>2,355,411</u>
Change in net assets					29,338
Net assets, beginning					<u>4,764,834</u>
Net assets, ending					<u>\$ 4,794,172</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Balance Sheet - Governmental Funds

September 30, 2012

	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 818,841	\$2,560,190	\$ -	\$153,883	\$ 3,532,914
Investments	1,876	-	-	-	1,876
Accounts receivable, net	173,864	-	-	-	173,864
Advance to other funds	337,815	-	-	-	337,815
Due from other governments	28,598	-	-	-	28,598
Prepaid items	97,995	-	-	-	97,995
Total assets	<u>\$ 1,458,989</u>	<u>\$2,560,190</u>	<u>\$ -</u>	<u>\$153,883</u>	<u>\$ 4,173,062</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 42,771	\$ 12,053	\$ -	\$ 1,630	\$ 56,454
Accrued payroll and related liabilities	34,241	-	-	-	34,241
Advance from other funds	-	337,815	-	-	337,815
Deposits	5,775	-	-	-	5,775
Unearned revenue	8,209	-	-	-	8,209
Deferred revenue	108,152	-	-	-	108,152
Total liabilities	<u>199,148</u>	<u>349,868</u>	<u>-</u>	<u>1,630</u>	<u>550,646</u>
Fund balance					
Nonspendable:					
Prepaid items	97,995	-	-	-	97,995
Long term portion of advances	337,815	-	-	-	337,815
Restricted for:					
Ocean Ave beautification	-	2,000	-	-	2,000
Historic preservation	-	656	-	-	656
Stormwater construction	-	2,207,666	-	-	2,207,666
Law enforcement	4,124	-	-	1,429	5,553
Law enforcement education	-	-	-	11,944	11,944
Old Town Hall	-	-	-	11,514	11,514
Stormwater utility	-	-	-	127,366	127,366
Unassigned	819,907	-	-	-	819,907
Total fund balances	<u>1,259,841</u>	<u>2,210,322</u>	<u>-</u>	<u>152,253</u>	<u>3,622,416</u>
Total liabilities and fund balances	<u>\$ 1,458,989</u>	<u>\$2,560,190</u>	<u>\$ -</u>	<u>\$153,883</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					6,330,838
Deferred revenue (related to reimbursement for lease and grant funds) recorded in the funds has been reversed and recorded as revenue in governmental activities.					108,152
Long-term liabilities, including bonds payable, compensated absences and the net OPEB obligation are not due and payable in the current period and therefore are not reported in the funds.					<u>(5,267,234)</u>
					<u>\$ 4,794,172</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended September 30, 2012

	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 1,594,138	\$ -	\$ 307,860	\$ 55,172	\$ 1,957,170
Licenses and permits	281,359	-	-	-	281,359
Intergovernmental	244,660	126,146	-	-	370,806
Charges for services	9,855	-	-	-	9,855
Fines and forfeitures	17,501	-	-	450	17,951
Interest	3,199	-	-	-	3,199
Miscellaneous	51,224	-	-	1,887	53,111
Total revenues	<u>2,201,936</u>	<u>126,146</u>	<u>307,860</u>	<u>57,509</u>	<u>2,693,451</u>
<b>Expenditures</b>					
Current:					
General government	683,686	-	-	-	683,686
Public safety	983,429	-	-	7,996	991,425
Recreation	6,467	-	-	583	7,050
Physical environment	232,195	14,481	-	7,951	254,627
Capital outlay	39,846	674,145	-	-	713,991
Debt service:					
Principal	65,224	-	234,780	-	300,004
Interest	24,269	-	220,114	-	244,383
Total expenditures	<u>2,035,116</u>	<u>688,626</u>	<u>454,894</u>	<u>16,530</u>	<u>3,195,166</u>
Excess (deficiency) of revenues over (under) expenditures	<u>166,820</u>	<u>(562,480)</u>	<u>(147,034)</u>	<u>40,979</u>	<u>(501,715)</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	132,671	-	132,671
Transfers out	(132,671)	-	-	-	(132,671)
Capital lease proceeds	30,306	-	-	-	30,306
Proceeds from sale of capital assets	500	-	-	-	500
Net other financing sources (uses)	<u>(101,865)</u>	<u>-</u>	<u>132,671</u>	<u>-</u>	<u>30,806</u>
Net change in fund balances	64,955	(562,480)	(14,363)	40,979	(470,909)
Fund balances, beginning	1,194,886	2,772,802	14,363	111,274	4,093,325
Fund balances, ending	<u>\$1,259,841</u>	<u>\$ 2,210,322</u>	<u>\$ -</u>	<u>\$ 152,253</u>	<u>\$ 3,622,416</u>

The accompanying notes are an integral part of this financial statement.

# TOWN OF MELBOURNE BEACH, FLORIDA

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended September 30, 2012

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Net change in fund balances - total governmental funds	\$ (470,909)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.	391,318
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the net effect of these differences in the treatment of long-term debt and related items.	263,596
Some revenues, the reimbursement from the Melbourne Beach Volunteer Fire Department for a fire truck, are recorded in the statement of activities, but since they do not provide current financial resources are not reported as revenues in the funds. This is the amount of revenues recorded in the funds in the current year, that was recorded in the statement of activities in the prior year.	(9,171)
Interest expense reported in the statement of activities requires the use of current financial resources and, therefore, is reported as an expenditure in the governmental funds.	3,230
The St. John's water management district grant revenues are recorded in the statement of activities, but since they do not provide current financial resources are not reported as revenues in the funds.	(126,146)
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(22,580)</u>
Change in net assets of governmental activities	<u><u>\$ 29,338</u></u>

# TOWN OF MELBOURNE BEACH, FLORIDA

## Statement of Fiduciary Net Assets - Pension Trust Funds

September 30, 2012

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### ASSETS

Cash and cash equivalents	\$ 60,756
Investments at fair value:	
Equity investments	1,298,700
Mutual funds	749,355
Accounts receivable	<u>20,780</u>
Total assets	<u>2,129,591</u>

### LIABILITIES

-

### NET ASSETS

Held in trust for pension benefits	<u><u>\$ 2,129,591</u></u>
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# TOWN OF MELBOURNE BEACH, FLORIDA

## Statement of Changes in Fiduciary Net Assets - Pension Trust Funds

Year Ended September 30, 2012

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### ADDITIONS

Contributions:

Town	\$ 172,748
Employee	21,370
State	32,943
Total contributions	<u>227,061</u>

Investment income:

Net appreciation in the fair value of investments	301,740
Interest and dividends	55,886
Net investment income	<u>357,626</u>

**Total additions**

584,687

### DEDUCTIONS

Benefit payments	244,555
Administrative expenses	37,641
Total deductions	<u>282,196</u>

**Change in net assets**

302,491

**Net assets held in trust for pension benefits, beginning of year**

1,827,100

**Net assets held in trust for pension benefits, end of year**

\$ 2,129,591

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# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting entity

The Town of Melbourne Beach, Florida (the Town) was incorporated by Chapter 9833, Laws of Florida, Acts of 1923. The Town operates under a Commission-Manager form of government and provides the following services: public safety, physical environment, recreation and general administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and would also include any component units for which the government is considered to be financially accountable. No potential component units were found for which the above criteria required consideration in defining the government's reporting entity.

### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets 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 are normally 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 Town does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 service 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town 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 *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects.

The *debt service fund* accounts for the acquisition of debt instruments.

Additionally, the Town reports the following fund type:

The *pension trust funds* account for assets, liabilities, revenues and expenses of the pension plans of the Town's police employees, and a single-employer defined contribution pension plan that covers the Town Manager. The activities of these funds are subject to state mandatory regulations, local ordinances and the policies of the governing boards.

The Town's nonmajor governmental funds are special revenue funds. They account for contraband forfeitures, law enforcement donations, law enforcement training, maintenance of town hall and stormwater utility taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements.

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

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Expenses for compensated absences are allocated based on a percentage of total salaries and wages for the year for the various functions.

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

### D. Assets, liabilities, and net assets or equity

#### 1. Cash and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Town invests certain surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the "State Pool"). The State Pool is administered by the Florida State Board of Administration ("SBA"), who provides regulatory oversight. On September 30, 2008, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restriction on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools ("LPIG" and "Fund B"). During the year ended September 30, 2009, the SBA renamed LPIG to Florida PRIME. The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a7-like fund. The fair value of the Town's position in the pool is equal to the value of pooled shares. Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio.

The Town is authorized by Florida Statute to invest surplus funds as follows:

- a) U.S. Government securities and agencies of the U.S. Government;
- b) SBA Investment Pool;
- c) Certificates of deposit with financial institutions which are qualified as public depositories;
- d) Passbook savings accounts, demand deposits and money market accounts which are insured up to \$250,000 by F.D.I.C.; and
- e) Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated investments.

The Police Pension Fund is invested in accordance with Florida Statute Section 185.06. The Defined Contribution Trust Fund does not have any investment restrictions.

Investments for the Town are stated at fair value. The Local Government Surplus Funds Trust Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. All of the deposits and interest are allocated to the General Fund.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Assets, liabilities, and net assets or equity (continued)

#### 2. Receivables and payables

Outstanding balances between funds are reported as “due to/from other funds.”

All account and tax receivables are considered to be fully collectible.

The Town is permitted to levy property taxes up to 10 mills on real property and business personal property located within its boundaries. Property taxes are levied by the Town on property values assessed by the Brevard County Property Appraiser and approved by the Florida Department of Revenue. The Town’s levy on taxes per \$1,000 of assessed value was \$3.9856 for 2012. The Town also levy’s on taxes per \$1,000 of assessed value was \$.9700 for stormwater, and \$.1862 for the library for 2012. Taxes based on the January 1 assessment value are due in November with discounts of one percent (1%) per month if paid before March, and become delinquent on April 1 with a penalty of three percent (3%) for real estate and one and one-half percent (1.5%) for business personal property. There is a public auction on the Brevard County Courthouse steps on or about June 1 to sell the tax certificates for unpaid property taxes. Brevard County acts as an agent for the Town in the collection of these taxes.

#### 3. Prepaid items

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.

#### 4. Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Assets, liabilities, and net assets or equity (continued)

#### 4. Capital assets (continued)

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

Buildings	25-40 years
Building improvements	7-30 years
Infrastructure	20-50 years
Vehicles	5-15 years
Equipment	3-18 years
Leased property	3-12 years

#### 5. Compensated absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and a portion of sick pay is accrued when incurred in the government-wide 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.

#### 6. Unearned revenues

Unearned revenues include amounts collected before the revenue recognition criteria are met. The unearned items consist primarily of license and permit revenues collected in advance.

#### 7. Deferred revenues

Deferred revenues include receivables which, under the modified accrual basis of accounting, are measurable but not yet available to finance expenditures of the current fiscal period.

#### 8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 and discount. Bond issuance costs are amortized over the term of the related debt.

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.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Assets, liabilities, and net assets or equity (continued)

#### 9. Fund equity

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-Spendable Fund Balance - Amounts that are inherently not spendable because of their form (such as inventory) and/or that cannot convert or are not readily convertible to cash (such as prepaid assets or the long-term portion of loans receivable).

Restricted Fund Balance - Amounts that have externally enforceable limitations on their use. These amounts are constrained to the specific purposes by their providers (such as grantors, bondholders, or higher levels of government pursuant to enabling legislation, e.g., gas tax revenues that must be used for road repairs).

Committed Fund Balance - Amounts that have self-imposed limitations established through actions of the Town Commission (the Town's highest level of decision making authority) set in place prior to the end of a financial reporting period. These amounts cannot be used for any other purpose unless the Town Commission takes action to remove or change the limitation.

Assigned Fund Balance – Amounts that the Town intends to use for a specific purpose. The authority for such intent may be expressed by the Town Commission, or is herein delegated independently to the Town Manager and/or Finance Director.

Unassigned Fund Balance – The remaining portion of fund balance which is spendable and not obligated or specifically designated, and thus, available for any purpose.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds. The Town did not have any Committed or Assigned fund balances as of September 30, 2012.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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

### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, compensated absences, and the net OPEB obligation, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(5,267,234) difference are as follows:

Bonds payable	\$ (1,582,083)
Less: deferred issuance costs (to be amortized over life of debt)	22,002
Plus: issuance premium (to be amortized over life of debt)	(36,919)
Less: deferred refunding loss (to be amortized over life of debt)	77,133
Accrued interest payable	(64,552)
Note payable	(3,129,000)
Capital lease	(435,150)
Net OPEB Obligation	(4,000)
Compensated absences	(114,665)
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (5,267,234)</u>

### B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this \$391,318 difference are as follows:

Capital outlay	\$ 713,991
Depreciation expense	<u>(322,673)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net assets of governmental activities</i>	<u>\$ 391,318</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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

### B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Another element of the reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets”. The details of this \$263,596 difference are as follows:

Debt issued or incurred:	
Capital lease	\$ (30,306)
Principal repayments:	
Capital leases	65,224
Revenue bonds	55,000
Ad valorem bonds	44,780
Note payable	135,000
Amortization of bond premium	3,518
Amortization of debt issuance costs	(2,211)
Amortization of deferred refunding loss	(7,409)
Net adjustment to increase net <i>changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 263,596</u>

## NOTE 3 – DETAILED NOTES ON ALL FUNDS

### A. Deposits and investments

At September 30, 2012, the Town’s carrying amount of cash deposits was \$3,113,976 and the bank balance was \$3,141,097. In addition, the Town reported petty cash of \$350. As of September 30, 2012, a total of \$2,139,264 deposited in a non-interest bearing account and \$250,000 deposited in a separate interest bearing account is covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the Town pursuant to Section 280.08, Florida Statutes. The Town participates in the State Board of Administration (SBA), and deposits are secured by government securities as required by Florida Statutes.

#### Credit risk

The Town does not have an adopted investment policy since it follows Florida Statute 218.415 for investment decisions. The pension plans’ policies also do not address credit risk.

#### Interest rate risk

The Town does not have an investment policy that addresses interest rate risk since it follows Florida Statute 218.415.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### A. Deposits and investments (continued)

#### Concentration of credit risk

The Town's Police Pension Plan does not allow for an investment in any one issuer that is in excess of five percent of the respective funds' total investments, except for securities issued by the U.S. government or its agencies, which may be held without limitation, and no more than 70% of the portfolio may be invested in stocks. The Town does not have an investment policy that addresses concentration of credit risk since it follows Florida Statute 218.415. The defined contribution plan does not address credit risk.

At September 30, 2012, the Town had the following investments:

Investment type	Fair Value	Investment Maturities (in years)				Rating	Agency
		Less than 1	1 - 5	6 - 10	More than 10		
Primary government:							
SBA: Florida Prime	\$ 418,588	\$ 418,588	\$ -	\$ -	\$ -	AAAm	S&P
SBA: Fund B	1,876	-	1,876	-	-	Not rated	
	<u>\$ 420,464</u>	<u>\$ 418,588</u>	<u>\$ 1,876</u>	<u>\$ -</u>	<u>\$ -</u>		
Pension trust funds:							
Money market fund	\$ 60,756	\$ 60,756	\$ -	\$ -	\$ -	Not rated	
Corporate stock	1,298,700	1,298,700	-	-	-	Not rated	
Bond mutual funds	733,462	733,462	-	-	-	Not rated	
Stock mutual funds	-	-	-	-	-	Not rated	
Balanced mutual fund	15,893	15,893	-	-	-	Not rated	
	<u>\$ 2,108,811</u>	<u>\$ 2,108,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

### B. Receivables

Receivables as of year end for the government's general fund, are as follows:

	General Fund
Accounts receivable	\$ 152,808
Utility service tax	21,056
Total receivables	<u>\$ 173,864</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### C. Capital assets

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	460,101	674,145	-	1,134,246
Total capital assets, not being depreciated	<u>1,357,843</u>	<u>674,145</u>	<u>-</u>	<u>2,031,988</u>
Capital assets, being depreciated:				
Buildings	2,482,582	-	-	2,482,582
Improvements other than buildings	1,131,137	9,540	-	1,140,677
Equipment	1,684,344	30,306	(22,849)	1,691,801
Infrastructure	1,916,701	-	-	1,916,701
Total capital assets being depreciated	<u>7,214,764</u>	<u>39,846</u>	<u>(22,849)</u>	<u>7,231,761</u>
Less accumulated depreciation for:				
Buildings	528,453	77,004	-	605,457
Improvements other than buildings	524,716	54,853	-	579,569
Equipment	1,006,569	114,183	(22,849)	1,097,903
Infrastructure	573,349	76,633	-	649,982
Total accumulated depreciation	<u>2,633,087</u>	<u>322,673</u>	<u>(22,849)</u>	<u>2,932,911</u>
Total capital assets being depreciated, net	<u>4,581,677</u>	<u>(282,827)</u>	<u>-</u>	<u>4,298,850</u>
Governmental activities capital assets, net	<u>\$ 5,939,520</u>	<u>\$ 391,318</u>	<u>\$ -</u>	<u>\$ 6,330,838</u>

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

Governmental activities:	
General government	\$ 81,497
Public safety	99,475
Cultural and recreational	69,694
Physical environment	72,007
Total depreciation expense – governmental activities	<u>\$ 322,673</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### D. Interfund receivables, payable and transfers

The composition of interfund balances as of September 30, 2012, is as follows:

Advance to/from other  
funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects Fund	<u>\$ 337,815</u>

Repayment of the advance will occur as funds come available.

All interfund receivables and payables within the primary government represent cash transfers for operating and capital purposes.

Interfund transfers:

<u>Transfers in:</u>	<u>Transfers out:</u>	<u>Amount</u>
Debt Service Fund	General Fund	<u>\$ 132,671</u>

Significant transfers included \$132,671 from the General fund to the Debt Service fund for debt service requirements.

### E. Capital lease

The Town has entered into certain lease agreements as lessee for financing the acquisition of certain vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

Asset:

Equipment	\$ 858,227
Less: Accumulated depreciation	(373,849)
Total	<u>\$ 484,378</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 66,584	\$ 22,909	\$ 89,493
2014	69,963	19,533	89,496
2015	32,477	15,982	48,459
2016	34,215	14,246	48,461
2017	36,050	12,412	48,462
2018-2022	195,861	30,963	226,824
Total minimum lease payments	<u>\$ 435,150</u>	<u>\$ 116,045</u>	<u>\$ 551,595</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### F. Long-term debt

#### Ad Valorem Tax Bond

On September 24, 1999 the Town issued Limited Ad Valorem Tax Bond, Series 1999 in the amount of \$525,000 for the purpose of purchasing a 50% interest in real property located in the Town. This property is to be used by the County for the purposes of constructing and operating a new library, pursuant to an Interlocal Operating Agreement dated March 23, 1999 with the Town for the Melbourne Beach Public Library.

Payment of the principal and interest on the Bond is secured by a pledge of real property ad valorem tax revenues assessed at an annual millage rate not to exceed .5 mills on all property within the Town. Principal is payable annually on May 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2000, with a final payment on May 1, 2014. The interest rate is 5.5%. The outstanding principal as of September 30, 2012 is \$97,083. The pledged gross revenues were \$49,579 and principal and interest payments were \$52,582 during 2012. As of September 30, 2012, principal and interest to maturity in 2014 to be paid from pledged future revenues totaled \$105,165.

#### Revenue Bond

On May 1, 2005 the Town issued Florida Municipal Loan Council Revenue Refunding Bonds, Series 2005B in the amount of \$1,620,000 to partially defease the Florida Municipal Loan Council Revenue Bonds, Series 1999B. The bonds are to be repaid with non-advalorem revenues of the Town. The bonds were issued for a period of 24 years with interest rates ranging from 3.0% to 5.0%. Principal is payable annually on November 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2007, with a final payment on November 1, 2029. The outstanding principal balance as of September 30, 2012 is \$1,485,000, plus a premium of \$36,919.

Annual debt service requirements to maturity for ad valorem tax bonds, and revenue bonds outstanding are as follows:

Year ending September 30,	Principal	Interest	Total
2013	\$ 102,243	\$ 75,510	\$ 177,753
2014	104,840	71,014	175,854
2015	60,000	66,230	126,230
2016	60,000	63,950	123,950
2017	65,000	61,125	126,125
2018-2022	380,000	252,000	632,000
2023-2027	465,000	146,625	611,625
2028-2030	345,000	26,375	371,375
Totals	<u>\$ 1,582,083</u>	<u>\$ 762,829</u>	<u>\$ 2,344,912</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### F. Long-term debt (continued)

#### Note Payable

On August 20, 2009, the Town entered into a loan with a bank in the amount of \$3,500,000 for the purpose of improving the stormwater management system and the repaving of affected streets. The note was issued for a period of 19 years with an interest rate of 4.23%. Principal is payable annually on July 1. Interest is payable on July 1 and January 1 of each year commencing on January 1, 2010, with a final payment on July 1, 2028. The outstanding principal balance as of September 30, 2012 is \$3,129,000.

Payment of the principal and interest on the note payable is secured by a pledge of real property ad valorem tax revenues assessed at an annual millage rate not to exceed a total of 0.25 mils on all property within the Town. The pledged gross revenues were \$258,281 and principal and interest payments were \$273,068 during 2012. As of September 30, 2012, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$4,369,150.

Annual debt service requirements to maturity for the Series 2009 note outstanding are as follows:

Year ending September 30,	Principal	Interest	Total
2013	\$ 141,000	\$ 132,358	\$ 273,358
2014	147,000	126,392	273,392
2015	153,000	120,174	273,174
2016	160,000	113,702	273,702
2017	166,000	106,934	272,934
2018-2022	942,000	423,126	1,365,126
2023-2027	1,158,000	206,382	1,364,382
2028-2029	262,000	11,082	273,082
Totals	<u>\$ 3,129,000</u>	<u>\$ 1,240,150</u>	<u>\$ 4,369,150</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### F. Long-term debt (continued)

#### Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Bonds payable:					
Ad Valorem bonds payable	\$ 141,863	\$ -	\$ (44,780)	\$ 97,083	\$ 47,243
Revenue bonds payable	1,540,000	-	(55,000)	1,485,000	55,000
Bond premium	40,437	-	(3,518)	36,919	-
Deferred loss	(84,542)	-	7,409	(77,133)	-
Total bonds payable	<u>1,637,758</u>	<u>-</u>	<u>(95,889)</u>	<u>1,541,869</u>	<u>102,243</u>
Note payable	3,264,000	-	(135,000)	3,129,000	141,000
Capital leases	470,068	30,306	(65,224)	435,150	66,584
Net OPEB obligation	4,000	-	-	4,000	-
Compensated absences	<u>92,085</u>	<u>57,355</u>	<u>(34,775)</u>	<u>114,665</u>	<u>57,333</u>
Governmental activity long-term liabilities	<u>\$ 5,467,911</u>	<u>\$ 87,661</u>	<u>\$ (330,888)</u>	<u>\$ 5,224,684</u>	<u>\$ 367,160</u>

Capital leases and compensated absences are generally liquidated by the General fund.

### G. Operating leases

The Town leases certain equipment under non-cancellable operating leases. The following schedule represents minimum future rental expense related to the leases.

Year Ending September 30, 2013	<u>\$ 5,913</u>
Total minimum future rental expense	<u>\$ 5,913</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 4 – OTHER INFORMATION

### A. Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters. In order to limit this exposure, the Town participates in the Florida League of Cities (a not-for-profit corporation) self-insurance program for workers compensation, general and auto liability, and property insurance. The self-insurance purchases excess and specific coverage from third party insurance carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. There have been no significant reductions in insurance coverage during 2012. Settled claims have not exceeded commercial excess coverage in any of the past three years.

### B. Retirement commitments – defined benefit plans

#### Florida Retirement System

The Town began participating on December 1, 2006 in the Florida Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system administered by the State of Florida Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. Amendments may only be made by the State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State of Florida Division of Retirement, 2639-C North Monroe Street, Tallahassee, FL 32399-1560.

Generally, membership is compulsory for all full-time and part-time general employees. Effective July 1, 2011, employees began paying 3% of their gross income and the Town pays the remaining contribution. The rates for employees as a percent of covered payroll vary depending on the employee's membership class. Contribution rates were 8.18%, 7.91%, and 10.77% for regular employees for 2012, 2011, and 2010, respectively. The amount of covered payroll for the years ended September 30, 2012, 2011, and 2010 were \$297,514, \$419,406, and \$345,035, respectively. The Town's contributions to the System for the three years ended September 30, 2012, 2011, and 2010 were \$15,411, \$33,175, and \$33,929, respectively, and are equal to the required contributions for each year.

#### Police Officers' Pension Plan

The Town maintains a separate single employer defined benefit pension plan for employees.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 4 – OTHER INFORMATION (CONTINUED)

### B. Retirement commitments – defined benefit plans (continued)

Plan description – All full-time police officers are eligible to participate in the Police Officers' Pension Plan. This is a single employer, defined benefit pension plan. Benefits vest after ten years of service. Participants may retire upon attainment of the earlier of, age 55 and completion of ten years of credited service, or age 52 and 20 years of credited service. Retirees are entitled to 3.0% of average monthly earnings times years of credited service. The plan also provides service-incurred disability compensation and early retirement. Early retirement may be taken at age 50 and 10 years of credited service with reduced benefits. The total contributions to the plan, including plan members contributions, are 30.0% of annual covered payroll. Benefit provisions and other requirements of the plan are established by Florida Statutes and Town Ordinance 2012-02. They are accounted for as pension trust funds and reported on herein as part of the Town's reporting entity. The plan is administered through its own Board of Trustees. There are 6 retirees receiving benefits, and 9 active members. Pension plan data is provided from the respective actuarial reports as of October 1, 2012.

Summary of significant accounting policies – The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms for the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value.

Funding policy – The Town's annual contribution to the pension plan was \$164,560 which approximated the actuarially determined contribution of \$164,560 for the plan year ended September 30, 2012. The Town uses the Entry Age Normal Actuarial Cost Method (EANACM). This is an acceptable method to the State of Florida. These liabilities are being funded over a 30 year period.

The State of Florida has established guidelines for state and local pension plan funding and requires submission to and approval of the local government's actuarial reports by a State Bureau, at least every third year. The Town's pension plans, by policy, require the following:

1. Annual actuarial reports as of October 1 of each year to determine the next year's required contributions.
2. Employee contributions at 5% of compensation.
3. Employer contributions in accordance with the actuarially determined requirement using the EANACM for the General Employees' Retirement System.

Annual pension cost – The Town's actuarially required contribution was \$164,560, and the amount funded by member, Town, and State contributions was \$218,873.

The actuarial assumptions used to compute the actuarially required contributions included (a) 8.0% investment rate of return and (b) projected salary increases of 6.0% compounded annually.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 4 – OTHER INFORMATION (CONTINUED)

### B. Retirement commitments – defined benefit plans (continued)

Trend information for the Town’s defined benefit plan is as follows:

	Fiscal Year Ended	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
Police Plan	2012	\$ 197,503	100%	(9)
	2011	240,275	100%	(9)
	2010	154,116	100%	(9)

**Funding Status and Funding Progress.** The funded status of the plan as of October 1, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability AAL Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL a % of Covered Payroll ((b-a)/c)
10/1/2012	\$ 2,079,266	\$ 3,176,905	\$ 1,097,639	65.45%	\$ 411,573	266.69%

The schedules of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

	Police Pension Plan
Contribution rates as of 09/30/12:	
City	46.21%
Plan members	5.0%
Annual pension cost	\$197,503
Contributions made	\$197,503
Actuarial valuation date	10/1/2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	25 years as of 10/1/12
Asset valuation method	4-year smooth
Actuarial assumptions:	
Investment rate return	8.0%
Projected salary increases *	6.0%
* Includes inflation at	3.0%
Post retirement cost-of-living adjustments	3.0% beginning at retirement until age 62

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 4 – OTHER INFORMATION (CONTINUED)

### B. Retirement commitments – defined benefit plans (continued)

Development of Net Pension Obligation (NPO). The sponsor has funded the actuarially determined required contributions for all years, thus the NPO is \$0.

Year Ended September 30	Annual Required Contribution	Town Contribution	State Contribution	NPO
2011	\$ 197,503	\$ 164,560	\$ 32,943	\$ -
2010	240,275	206,606	33,669	-
2009	154,116	114,851	39,265	-

### C. Defined contribution plan

#### *401(a) Money Purchase Plan and Trust*

In January, 2005, the Town established a 401(a) Money Purchase Plan and Trust with ICMA Retirement Corporation, exclusively for the Town Manager in accordance with an employment agreement with the Town Manager. Such employment agreement requires the Town to contribute an amount equal to the amount which would have otherwise been paid for that year as a contribution to the Town's retirement fund. The Town Manager cannot contribute.

Covered payroll under the Plan for the years ended September 30, 2012 and 2011 was \$68,230, and \$68,870, respectively. The Town's actual and required contributions totaled \$8,188 and \$6,823 for the years ended September 30, 2012 and 2011, respectively.

### D. Employee retirement plans – combining fund information

	Police Plan	Defined Contribution Plan	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 60,756	\$ -	\$ 60,756
Investments at fair value:			
Equity investment	1,298,700	-	1,298,700
Mutual funds	733,462	15,893	749,355
Accounts receivable	20,780	-	20,780
Total assets	<u>2,113,698</u>	<u>15,893</u>	<u>2,129,591</u>
<b>LIABILITIES</b>			
	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits	<u>\$ 2,113,698</u>	<u>\$ 15,893</u>	<u>\$ 2,129,591</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 4 – OTHER INFORMATION (CONTINUED)

### D. Employee retirement plans – combining fund information (continued)

	Police Plan	Defined Contribution Plan	Total
<b>ADDITIONS</b>			
Contributions:			
Town	\$ 164,560	\$ 8,188	\$ 172,748
Employee	21,370	-	21,370
State	32,943	-	32,943
Total contributions	<u>218,873</u>	<u>8,188</u>	<u>227,061</u>
Investment income:			
Net appreciation in the fair value of investments	299,351	2,389	301,740
Interest and dividends	55,886	-	55,886
Net investment income	<u>355,237</u>	<u>2,389</u>	<u>357,626</u>
<b>Total additions</b>	<u>574,110</u>	<u>10,577</u>	<u>584,687</u>
<b>DEDUCTIONS</b>			
Benefit payments	230,620	13,935	244,555
Administrative expenses	37,641	-	37,641
Total deductions	<u>268,261</u>	<u>13,935</u>	<u>282,196</u>
<b>Change in net assets</b>	305,849	(3,358)	302,491
<b>Net assets held in trust for pension benefits, beginning of year</b>	<u>1,807,849</u>	<u>19,251</u>	<u>1,827,100</u>
<b>Net assets held in trust for pension benefits, end of year</b>	<u>\$ 2,113,698</u>	<u>\$ 15,893</u>	<u>\$ 2,129,591</u>

### E. Other post-employment benefits

**Plan description.** The Town of Melbourne Beach, Florida administers a single-employer defined benefit healthcare plan (the “Plan”) that provides medical insurance to its employees and their eligible dependents. Pursuant to Section 112.0801 Florida Statutes, the Town is required to provide eligible retirees, as defined in the Town’s ordinances, the opportunity to participate in this Plan at the same cost that is applicable to active employees. Eligible participants include all employees who retire from the Town either under disability or after attaining age 62 or at least 30 years of service for general employees, or after attaining age 55 or at least 25 years of service for sworn employees.

Employees and their dependents may elect to remain in the Plan upon retirement up to age 65. After age 65 the Town’s insurance coverage becomes secondary to the retiree’s Medicare insurance. The Plan has 2 retirees receiving benefits and has a total of 15 active participants and dependents. Of that total, 13 are not yet eligible to receive benefits.

Benefit provisions for the Plan are established under the authority and policies of the Town Manager and may be amended by the Town Manager. The Council approves the Town’s annual budget and, therefore, indirectly approves the annual costs associated with the Plan. The Town has not established a trust or agency fund for the Plan. The Town does not issue stand-alone financial statements for this Plan. All financial information related to the Plan is accounted for in the Town’s basic financial statements.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

## NOTE 4 – OTHER INFORMATION (CONTINUED)

### E. Other post-employment benefits (continued)

**Funding policy.** The Town is funding the Plan on a pay-as-you-go basis. Employees and their dependents are required to pay 100% of the estimated pro rata annual cost of the Plan. There is an implied subsidy in the insurance premiums for these employees because the premium charged for retirees is the same as the premium charged for active employees, who are younger than retirees on average.

For the year ended September 30, 2012, the Town's contribution is \$7,000, which represents an estimate of the implied subsidy described above. Contributions of Plan members totaled \$30,063 for the year ended September 30, 2012.

**Annual OPEB cost and net OPEB obligation.** The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year ended September 30, 2012, the amount actually contributed to the Plan, and changes in the Town's net OPEB obligation to the Plan:

Annual required contribution	\$ 7,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>7,000</u>
Contributions made	(7,000)
Interest on employer contributions	-
Increase in net OPEB obligation	<u>-</u>
Net OPEB obligation – beginning of year	4,000
Net OPEB obligation – end of year	<u><u>\$ 4,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/12	\$ 7,000	100%	\$ 4,000
9/30/11	\$ 7,000	86%	\$ 4,000
9/30/10	\$ 8,000	62.5%	\$ 3,000

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 4 – OTHER INFORMATION (CONTINUED)

### E. Other post-employment benefits (continued)

**Funded status and funding progress.** Because the Plan has fewer than 200 members, the Town is required to obtain an actuarial valuation at least every three years. The most recent actuarial valuation was performed as of January 1, 2010. Accordingly, the Town will be required to obtain a subsequent actuarial valuation within three years of that date. As of September 30, 2010, the actuarial accrued liability for benefits was \$45,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$474,000, and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 9.5%.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the Town's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented.

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

In the September 30, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return (including inflation of 2.75%) and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 6.0% after nine years. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The UAAL is being amortized using a level-dollar payment basis over an open period of 10 years.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2012

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## NOTE 5 – FUTURE ACCOUNTING PRONOUNCEMENTS

The following statements of the Governmental Accounting Standards Board will be effective for the Town's 2013 fiscal year:

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

Statement No. 61, *The Financial Reporting Entity: Omnibus*

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

The Town is currently evaluating the effects that these statements will have on its financial statements for the year ended September 30, 2013.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# TOWN OF MELBOURNE BEACH, FLORIDA

## Required Pension Supplementary Information – Schedule of Funding Progress

Last Six Fiscal Years

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### Police Pension Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability AAL Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL a % of Covered Payroll ((b-a)/c)
10/1/2012	\$ 2,079,266	\$ 3,176,905	\$ 1,097,639	65.45%	\$ 411,573	266.69%
10/1/2011	1,989,982	3,084,260	1,094,278	64.52%	418,522	261.46%
10/1/2010	2,012,245	2,967,296	955,051	67.81%	412,334	231.62%
10/1/2009	2,050,034	2,894,442	844,408	70.83%	329,086	256.59%
10/1/2008	2,204,106	2,811,683	607,577	78.39%	357,837	169.79%
10/1/2007 *	2,290,447	2,874,543	584,096	79.68%	434,305	134.49%

\* The actuarial cost method changed from Frozen Entry Age to Entry Age Normal.

# TOWN OF MELBOURNE BEACH, FLORIDA

Required Pension Supplementary Information – Schedule of Contributions from the Employer  
And Other Contributing Entities

Last Six Fiscal Years

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## Police Pension Plan:

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Town Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 197,503	\$ 164,560	\$ 32,943	100.00%
2011	240,275	206,606	33,669	100.00%
2010	154,116	114,851	39,265	100.00%
2009	131,274	94,895	36,379	100.00%
2008	99,856	57,066	42,790 *	100.00%
2007	112,844	70,054	42,790 *	100.00%

\* State contribution amounts are frozen at this level until further benefit improvements are made per requirements of Chapter 175, Florida Statutes, as amended.

# TOWN OF MELBOURNE BEACH, FLORIDA

## Required Other Postemployment Benefits Supplementary Information – Schedule of Funding Progress Most Recent Actuarial Valuation

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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability AAL (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
1/1/2010	\$ -	\$ 45,000	\$ 45,000	0.0%	\$ 474,000	9.50%

Note: Because fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented as required valuations are performed.

# TOWN OF MELBOURNE BEACH, FLORIDA

## Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

Year Ended September 30, 2012

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 1,530,701	\$ 1,594,138	\$ 1,594,138	\$ -
Licenses and permits	291,500	281,359	281,359	-
Intergovernmental	231,500	244,660	244,660	-
Charges for services	14,950	9,855	9,855	-
Fines and forfeitures	21,850	17,501	17,501	-
Miscellaneous (including interest)	33,011	50,385	54,423	4,038
Total revenues	2,123,512	2,197,898	2,201,936	4,038
<b>Expenditures</b>				
General government:				
Legislative	91,844	84,602	84,596	6
Executive	117,567	142,639	142,639	-
Finance	94,453	107,308	104,356	2,952
Legal counsel	77,750	79,155	79,155	-
Comprehensive planning	19,303	35,145	35,145	-
General services	234,578	237,795	237,795	-
Total General Government	635,495	686,644	683,686	2,958
Public Safety:				
Law enforcement	879,927	880,013	880,013	-
Fire control	153,783	131,912	131,912	-
Building Department	54,671	42,122	45,704	(3,582)
Code Enforcement	15,441	15,293	15,293	-
Total Public Safety:	1,103,822	1,069,340	1,072,922	(3,582)
Recreation	8,250	16,007	16,007	-
Physical environment	248,376	230,213	232,195	(1,982)
Total expenditures	1,995,943	2,002,204	2,004,810	(2,606)
<b>Excess of revenues over expenditures</b>	127,569	195,694	197,126	1,432
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	5,750	500	500	-
Transfers out	(133,319)	(132,671)	(132,671)	-
Net other financing sources (uses)	(127,569)	(132,171)	(132,171)	-
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	-	63,523	64,955	1,432
<b>Fund balances, beginning of year</b>	1,194,886	1,194,886	1,194,886	-
<b>Fund balances, end of year</b>	\$ 1,194,886	\$ 1,258,409	\$ 1,259,841	\$ 1,432

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Required Supplementary Information

September 30, 2012

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## A. Budgetary information

The Town of Melbourne Beach, Florida follows these procedures in establishing the budgetary data reflected in the required supplementary information:

- Prior to September 1, the Town Manager submits to the Town Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Complete copies of the proposed budget are open for public inspection until the budget is finally adopted.
- The required number of public hearings are held by the Town Commission.
- Prior to October 1, the budget is legally enacted through passage of a resolution, which indicates amounts appropriated. The appropriated budget is prepared by fund, function and department.
- The budgets for governmental funds are adopted on a basis that is consistent with generally accepted accounting principles (GAAP) except for capital leases. Budgeted amounts reflected in the accompanying budget and actual comparisons are as adopted, and subsequently amended, by the Town Commission.
- All appropriations which are not expended or accrued lapse at year end.
- The Town Manager may make transfers within a department as long as the total budget for the department is not increased. Transfers of appropriations between departments require the approval of the Commission. The Town's Ordinance establishes the level at which expenditures may not exceed appropriations at the department level.

## B. Excess of Expenditures Over Appropriations

For the year ended September 30, 2012, expenditures exceeded appropriations by approximately \$4,000 for the Building Department, and \$2,000 for the Physical Environment Department for the General Fund. These overages are mainly due to salary accruals that were not included in the budget.

## C. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

### Revenues

Actual amounts (budgetary basis) of total revenues reported on the schedule of revenues, expenditures and changes in fund balances - budget and actual equal total revenues as reported on the statement of revenues, expenditures, and changes in fund balances.

# TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Required Supplementary Information

September 30, 2012

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## C. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures (continued)

### Expenditures

	<u>General Fund</u>
Actual amounts (budgetary basis) total expenditures as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ 2,004,810
Differences - budget to GAAP; Capital outlay for a police vehicle for financial reporting purposes, but not reported as an expenditure for budgetary purposes.	<u>30,306</u>
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances.	<u>\$ 2,035,116</u>

### Other Financing Sources (uses)

	<u>General Fund</u>
Actual amounts (budgetary basis) net other financing sources (uses) as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ (132,171)
Differences - budget to GAAP; Capital lease proceeds for a police vehicle for financial reporting purposes, but not reported as an expenditure for budgetary purposes.	<u>30,306</u>
Net other financing sources (uses) reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ (101,865)</u>

## D. Change in budget policy

In 2012, the Town changed their budget policy from budgeting on a GAAP basis to budgeting on a GAAP basis except for capital leases. The Town only budgets for the capital lease payments made during the year, not the capital lease proceeds, or the corresponding capital outlay.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

# TOWN OF MELBOURNE BEACH, FLORIDA

Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2012

	Special Revenue		
	Law Enforcement Forfeiture	Law Enforcement Donations	Police Education Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,429	\$ -	\$ 11,944
Total assets	<u>\$ 1,429</u>	<u>\$ -</u>	<u>\$ 11,944</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted for:			
Law enforcement	1,429	-	-
Law enforcement education	-	-	11,944
Stormwater utility	-	-	-
Old Town Hall	-	-	-
Total fund balances	<u>1,429</u>	<u>-</u>	<u>11,944</u>
Total liabilities and fund balances	<u>\$ 1,429</u>	<u>\$ -</u>	<u>\$ 11,944</u>

<u>Special Revenue</u>		
<u>Old Town Hall</u>	<u>Stormwater Utility Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 11,514	\$ 128,996	\$ 153,883
<u>\$ 11,514</u>	<u>\$ 128,996</u>	<u>\$ 153,883</u>
\$ -	\$ 1,630	\$ 1,630
<u>-</u>	<u>1,630</u>	<u>1,630</u>
-	-	1,429
-	-	11,944
-	127,366	127,366
11,514	-	11,514
<u>11,514</u>	<u>127,366</u>	<u>152,253</u>
<u>\$ 11,514</u>	<u>\$ 128,996</u>	<u>\$ 153,883</u>

# TOWN OF MELBOURNE BEACH, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

September 30, 2012

	Special Revenue		
	Law Enforcement Forfeiture	Law Enforcement Donations	Police Education Fund
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	450
Miscellaneous	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>450</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	-	6,716	1,280
Recreation	-	-	-
Physical environment	-	-	-
Total expenditures	<u>-</u>	<u>6,716</u>	<u>1,280</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>-</u>	<u>(6,716)</u>	<u>(830)</u>
<b>Net changes in fund balances</b>	-	(6,716)	(830)
<b>Fund balances, beginning of year</b>	1,429	6,716	12,774
<b>Fund balances, end of year</b>	<u>\$ 1,429</u>	<u>\$ -</u>	<u>\$ 11,944</u>

<u>Special Revenue</u>		
<u>Old Town Hall</u>	<u>Stormwater Utility Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 55,172	\$ 55,172
-	-	450
1,003	884	1,887
<u>1,003</u>	<u>56,056</u>	<u>57,509</u>
-	-	7,996
583	-	583
-	7,951	7,951
<u>583</u>	<u>7,951</u>	<u>16,530</u>
<u>420</u>	<u>48,105</u>	<u>40,979</u>
420	48,105	40,979
11,094	79,261	111,274
<u>\$ 11,514</u>	<u>\$ 127,366</u>	<u>\$ 152,253</u>

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

Honorable Mayor and Members of Town Commission  
Town of Melbourne Beach, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Town of Melbourne Beach is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Melbourne Beach, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Melbourne Beach, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Melbourne Beach, Florida's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in internal control over financial reporting to be a material weakness:

**IC 2012- 01 Lease Recognition**

Condition: Only the payments on the new police cruiser capital lease were recorded.

Criteria: When a new capital lease begins, the capital outlay and capital lease proceeds should be recorded.

Cause of Condition: The Town overlooked that the capital outlay and capital lease proceeds were missing in the review of the capital asset schedule.

Effect of Condition: Capital outlay and capital lease proceeds were understated.

Recommendation: We recommend that the capital lease proceeds and capital outlay are recorded when a capital lease is entered into.

Management's Response: The Town will ensure all new capital leases are properly recorded using capital lease proceeds and capital outlay. To aid in this, every new lease agreement will be evaluated to determine whether it is considered a capital lease according to Generally Accepted Accounting Principles (GAAP) and recorded accordingly.

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. We identified the following deficiencies in internal controls over financial reporting that we consider to be significant deficiencies:

### **IC 2012- 02 Computer Back-ups**

Condition: The Town does not have adequate computer back-ups of the master files and financial data to perform complete restoration in the event of loss.

Criteria: An adequate computer back-up of the master files and financial data should be maintained off-site as a means of minimizing potential loss of data.

Cause of Condition: The back-up of the server and financial data are currently only maintained at the Town instead of an off-site location.

Effect of Condition: The Town is at risk of losing financial data and records if their facility was destroyed because they do not maintain a back-up at a secondary location.

Recommendation: We recommend developing a process to maintain a copy of all financial data at an off-site location either by using the off-site database available through the contracted IT service or by performing back-ups to an external drive that can be transported and securely stored by the Town Manager or Finance Director.

Management's Response: The Town will develop a process to maintain a copy of all financial data at an off-site location by using an off-site database available through our contracted IT service provider. This will be implemented in the next two months. In the meantime, the Town will perform back-ups to an external drive that can be transported and securely stored by the Town Manager or Finance Director.

### **IC 2012- 03 Fund Balance**

Condition: During the audit, we noted the beginning fund balance did not tie to the prior year ending fund balance per the issued financial statements. Adjustments were incorrectly posted to the general ledger due to improperly implementing closing procedures.

Criteria: Accounting procedures should be performed to provide reasonable assurance that the general ledger is free of material misstatements, including ensuring that the beginning fund balance ties to the prior year ending fund balance per the issued financial statements.

Cause of Condition: The prior year records were not officially closed in accordance with the year-end procedures in place, which allowed the client to make adjusting entries to the prior year although the financial statement audit was complete. Therefore, the automated controls preventing entries to the prior year was not functioning at the time the adjustments were made and subsequent procedures were not performed to ensure the beginning fund balance matched the issued financial statements.

Effect of Condition: Adjusting journal entries were required to correct prepaids and fund balance.

Recommendation: Management should reconcile all schedules to the general ledger and compare the current year beginning fund balance to the prior year ending fund balance, as presented to the Commission. In addition, we recommend management review to ensure all manual closing entries are recorded correctly, such that the intended account balance changes are accurately reflected in the final trial balance.

Management's Response: The Town will reconcile all schedules to the general ledger and compare current year beginning fund balance to the prior year ending fund balance, as presented to the Commission. The Town has also implemented annual and monthly closing procedures to ensure entries are not posted to prior years. This ensures all manual closing entries are recorded to the correct year resulting in an accurate reflection in the final trial balance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Melbourne Beach, Florida's financial statements are free of 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of Town of Melbourne Beach in a separate letter dated January 28, 2013.

The Town of Melbourne Beach, Florida's responses to the findings identified in our audit are described above. We did not audit the Town of Melbourne Beach, Florida's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town Commission, management, others within the entity, state and federal awarding agencies, specific legislative or regulatory bodies, and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Carr Riggs & Ingram, LLC*

Melbourne, Florida  
January 28, 2013

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## INDEPENDENT AUDITORS' MANAGEMENT LETTER

Honorable Mayor and Members of Town Commission  
Town of Melbourne Beach, Florida

We have audited the financial statements of the Town of Melbourne Beach, Florida as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated January 28, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated January 28, 2013, should be considered in conjunction with this management letter.

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

- ❖ Section 10.554(l)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address the findings and recommendations made in the preceding annual financial audit report, as noted below:

Internal Control Letter Comments

IC 2011-01	Segregation of Duties	Corrected
IC 2010-02	Travel Expenditures	Revised and repeated below

- ❖ Section 10.554(l)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town of Melbourne Beach, Florida complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had the following recommendations:

### IC 2010- 02 Travel Expenditures

Condition: During our testing, we identified one instance, resulting in an overpayment of \$144, where the Town paid for lodging based upon the reservation rather than the actual receipt although the receipt only included two nights of lodging instead of three.

Criteria: Travel expenditures should relate to actual travel costs incurred and should be supported by adequate documentation.

### **IC 2010- 02 Travel Expenditures (continued)**

Cause of Condition: The individual's lodging was one day less than the initial reservation. The Town did not ensure that the amount paid by check matched the actual receipt instead of the reservation.

Effect of Condition: The Town overpaid for travel expenses.

Recommendation: The Town should have a process in place to verify that the travel charges, whether through credit card or employee reimbursement, are for actual costs incurred rather than estimates.

Management's Response: The Town will ensure receipts match amount paid. In the event the receipts do not match, the Finance Director will ensure the difference is reconciled either through requesting a refund or paying the difference. In this instance, immediately upon discovery, a refund of \$144 was requested and was subsequently received.

### **IC 2012- 04 Budget**

Condition: The Town incurred unexpected costs mainly due to year end accrual adjustments that were not considered during preparation of the final budget amendment.

Criteria: Expenditures exceeding the final budget amendments are not in compliance with Florida Statutes section 166.241.

Cause of Condition: Adjustments made after the final budget amendment caused expenditures to exceed the final amended budget.

Effect of Condition: The Town exceeded their legal level of budgetary control for the building and physical environment departments.

Recommendation: We recommend the Town identify and adjust for all potential year end accrual adjustments prior to approval of the final budget amendment.

Management's Response: The Town performs extensive account analysis as part of the audit preparation at year end to identify potential accrual adjustments prior to finalizing the fiscal year budget amendment. In the current year, one adjustment was not identified until after the 60 day threshold for budget amendment. For future years, the Town will continue to enhance its year end closing procedures to ensure needed adjustments are identified prior to the final budget amendment.

- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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 more than inconsequential. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such deficiencies.

- ❖ Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the Town of Melbourne Beach, Florida is disclosed in the footnotes.
- ❖ Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the special condition(s) met. In connection with our audit, we determined that the Town of Melbourne Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town of Melbourne Beach, Florida for the fiscal year ended September 30, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Melbourne Beach, Florida'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.

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

*Carr Riggs & Ingram, LLC*

Melbourne, Florida  
January 28, 2013