



TOWN OF MELBOURNE BEACH, FLORIDA

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2014



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Year Ended September 30, 2014

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**Town of Melbourne Beach, Florida
Town Commission Members and Officials
Year Ended September 30, 2014**

Jim Simmons
Mayor

Jean Marshall
Vice Mayor

Sandy Wilson
Gail Gowdy
Margot Dorfman
Commission Members

Jaime Titcomb
Town Manager

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (pages 9 through 17) and the required supplementary information (pages 59 through 68) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Melbourne Beach, Florida's basic financial statements. The combining schedules and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other information, such as the introductory section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and schedule of expenditures of federal awards 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 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* in considering the Town of Melbourne Beach, Florida's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
November 12, 2015

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Town of Melbourne Beach, Florida 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, 2014.

Financial Highlights

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2014 fiscal year by \$6,984,347 (net position). Of this amount, \$5,139,781 is net investment in capital assets while restricted net position is \$1,450,161.
- The total net position increased \$698,140, an increase of about 11.1 % from previous year.
- As of the close of fiscal year 2014, the Town's governmental funds reported combined ending fund balances of \$3,128,005, an increase of \$1,011,864 in comparison with the prior year. While \$1,670,358 represents the portion restricted by outside parties, \$1,401,723 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$55,924 of governmental fund balance is non-spendable for current obligations.
- At the end of the 2014 fiscal year, unassigned fund balance for the general fund was \$1,401,723 or 64.9 % of total general fund expenditures.
- The Town's total long term liabilities decreased by \$338,731 during the 2014 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.

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

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

Town of Melbourne Beach, Florida Management's Discussion and Analysis

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 21-23 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 9 individual governmental funds, including the General Fund, Long Term Capital Projects Fund, Debt Service Fund and six non-major funds. The non-major funds are the Police Education, Building Education, Old Town Hall, Stormwater Utility, Law Enforcement Forfeiture funds and Police Donations. 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 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major 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 24-27 of this report.

Town of Melbourne Beach, Florida Management's Discussion and Analysis

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 28-29 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 31-56 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the 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 59-68 of this report.

The combining statements referred to earlier in connection with non-major 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 70-73 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$6,984,347 at the close of the 2014 fiscal year.

By far the largest portion of the Town's net position (73.6 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 net investment in 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.

Town of Melbourne Beach, Florida Management's Discussion and Analysis

Of the remaining net position, \$1,450,161 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 capital development projects as a result of the \$3.5 million note issued for this purpose. The remaining balance of unrestricted net position, \$394,405 may be used to meet the Town's ongoing obligations to citizens and creditors.

	Governmental activities	
	2014	Restated 2013
Current and other assets	\$ 3,339,155	\$ 4,035,478
Capital assets	8,461,917	8,332,579
Total assets	11,801,072	12,368,057
Current liabilities	142,840	1,070,105
Noncurrent liabilities	4,661,242	4,999,973
Total liabilities	4,804,082	6,070,078
Deferred inflows	12,643	11,772
Net Position:		
Net investment in		
Capital Assets	5,139,781	4,881,384
Restricted	1,450,161	487,748
Unrestricted	394,405	917,075
Total net position	\$ 6,984,347	\$ 6,286,207

Town's Changes in Net Position

	Governmental activities	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 131,751	\$ 130,579
Operating grants and contributions	84,249	82,604
Capital grants and contributions	759,297	1,321,044
General revenues:		
Property taxes	1,454,407	1,440,233
Other taxes	793,270	776,856
Shared revenues	192,375	209,833
Unrestricted investment earnings	903	1,705
Other	9,553	80,800
Total revenues	3,425,805	4,043,654
Expenses:		
General government	859,982	756,337
Public safety	1,205,796	1,135,428
Recreation	64,407	73,274
Physical environment	375,481	333,379
Interest on long-term debt	221,999	233,457
Total expenses	2,727,665	2,531,875
Increase in net position	698,140	1,511,779
Net position - beginning of year, as restated	6,286,207	4,774,428
Net position - end of year	\$ 6,984,347	\$ 6,286,207

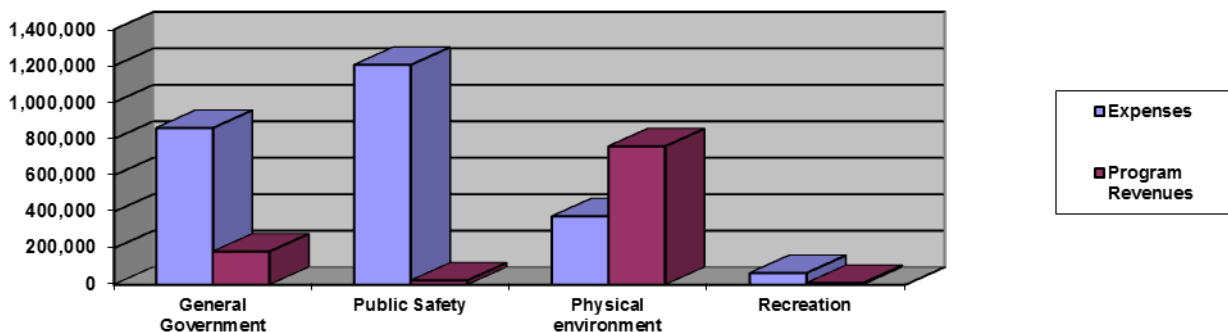
Town of Melbourne Beach, Florida Management's Discussion and Analysis

Governmental activities

Governmental activities increased the Town's net position by \$698,140. This amount is primarily attributable to increases in general revenues including property taxes and other taxes. These revenue increases are offset by a decrease in unrestricted investment earnings and an increase in expenses for public safety and general government, while recreation and interest decreased. Governmental activities increased the Town's assets by \$1,511,779 in the prior year. Key elements of the difference between the two years change in assets, \$813,639, are as follows:

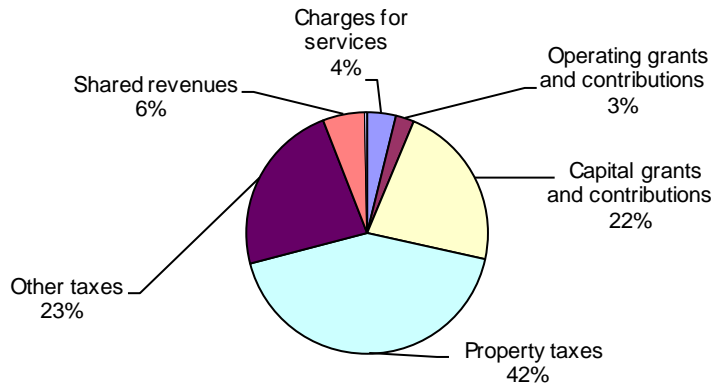
- The Town's total revenues related to governmental activities decreased by approximately \$617,849 from the prior year. Factors that contributed to a decrease in revenues are a \$561,747 decrease in capital grants and contributions due to no new grants or contributions received during fiscal year 2014, a decrease in other revenues of \$71,247 due to a lawsuit settlement that occurred in fiscal year 2013, and decrease in shared revenues of \$17,458 due to no revenue received from Brevard county for first responders. This was offset by an increase in property taxes of approximately \$14,174 and an increase in other taxes of \$16,414 due to increases in assessed values.
- Expenses related to governmental activities increased by \$195,790 from the prior year. This increase is related to an increase of approximately \$70,368 in public safety expenses as a result of combined increases in police pension fund costs, upgrade of police radios, and overtime of policemen, and an increase in general government of approximately \$103,645 due to an increase in temporary personal, new employees, and insurance premiums. Additionally, there was an increase in physical environment expenses of \$42,102 due to an increase in building maintenance and increases in salaries. These are offset by a decrease in interest on long-term debt of \$11,458 and a decrease in recreation of \$8,867 due to a decrease of community activities.

Expenses and Program Revenues – Governmental Activities



Town of Melbourne Beach, Florida Management's Discussion and Analysis

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 fiscal year 2014, the Town's governmental funds reported combined ending fund balances of \$3,128,005, an increase of \$1,011,864 in comparison with the prior year. A portion of fund balance is designated as Non-spendable to indicate that it is not available for new spending because it has already been committed: 1) \$55,924 for prepaid items 2) \$8,042 for debt purposes 3) \$7,204 for historic preservation 4) \$1,450,161 for stormwater construction 5) \$175,342 for stormwater utility 6) \$15,796 for education 7) \$1,429 for law enforcement and 8) \$12,384 for Old Town Hall. The remaining amount, \$1,401,723 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 2014 fiscal year, unassigned fund balance of the general fund was \$1,401,723 while total general fund balance was \$1,457,647. 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 65 percent of total general fund expenditures, while total fund balance represents 67 percent of that same amount. The fund balance of the General Fund increased by \$16,601 during the fiscal year. An excess of revenues over expenditures of approximately \$145,975 was offset by approximately \$125,475 of transfers to the debt service fund for debt payments.

Town of Melbourne Beach, Florida Management's Discussion and Analysis

The Capital Projects Fund has a fund balance of \$1,457,365. The net increase in fund balance during the current year in the capital projects fund was \$962,413. The increase was related to the timing of revenue and expenses related to stormwater projects grants recognized in multiple years.

The Debt Service Fund has a fund balance of \$8,042. The net decrease from principal and interest payments exceeding tax revenue during the current year in the debt service fund was \$119,681 which was offset by a \$125,475 transfer in from the general fund. The decrease was related to current debt service payments.

Nonmajor Funds has a balance of \$204,951. The net increase in the funds of \$22,527 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, 2014, amounts to \$8,461,917 (net of accumulated depreciation). This represents a net increase of \$129,338 or a 1.6% percent increase from the previous year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

The additions in the governmental activities are reflected as additions of construction in progress, and equipment of \$9,810. The Town completed all construction during 2014 and transferred the entire balance of \$2,700,681 to infrastructure. Additions were offset by disposals of equipment for \$27,085. These additions were also offset by depreciation expense of \$446,354.

Town's Capital Assets (net of depreciation)

	2014	2013
Land	\$ 897,742	\$ 897,742
Buildings	1,731,528	1,808,224
Improvements other than building	459,153	514,523
Equipment	477,827	575,755
Infrastructure	4,895,667	2,401,536
Construction in progress	-	2,134,799
Total	\$ 8,461,917	\$ 8,332,579

Additional information on the Town's capital assets can be found in Note 3-D on page 42 of this report.

Town of Melbourne Beach, Florida Management's Discussion and Analysis

Long-term Liabilities. At the end of the 2014 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$4,216,000. Of this debt, \$2,841,000 is secured by a separate ad valorem millage. The remainder of the outstanding debt, \$1,375,000 is secured by specified revenue sources (i.e., revenue bonds).

Town's Long-term Liabilities

	2014	2013
Ad Valorem bonds payable	\$ -	\$ 49,840
Revenue bonds payable	1,375,000	1,430,000
Bond premium	30,158	33,492
Deferred loss	(62,894)	(69,916)
Note payable	2,841,000	2,988,000
Capital leases	339,077	437,889
Net OPEB Obligation	3,000	4,000
Compensated absences	135,901	126,668
Total	\$ 4,661,242	\$ 4,999,973

The Town's long-term liabilities decreased by \$338,731 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.

Additional information on the Town's long-term debt can be found in Note 3-F and G on pages 43-46 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town Commission approved a millage rate of 4.1105 for Fiscal Year 2015. The millage rate for Fiscal Year 2014 was 4.0008. The taxable value of real property increased by 7% percent for Fiscal Year 2014 and is expected to increase in Fiscal Year 2015.

Other Factors

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

Several cost increases are anticipated in the next fiscal year. Capital outlay expenditures are expected to increase due to the St. Johns River Stormwater projects that are expected to begin during fiscal year 2015. In addition, possible repairs and improvements to facilities may increase capital outlay expenditures. Possible increases and additions to fees will allow an increase in revenues for fiscal 2015 and a portion of fiscal 2016.



Town of Melbourne Beach, Florida Management's Discussion and Analysis

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 Manager, 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 Position – Governmental Activities

September 30, 2014

ASSETS	
Cash and cash equivalents	\$ 2,810,470
Investments	120
Receivables	189,174
Due from other governments	283,467
Prepaid items	55,924
Capital assets not be depreciated:	
Land	897,742
Capital assets (net of accumulated depreciation):	
Buildings	1,731,528
Improvements other than buildings	459,153
Machinery and equipment	477,827
Infrastructure	4,895,667
Total assets	11,801,072
LIABILITIES	
Accounts payable	54,632
Accrued payroll and related liabilities	23,599
Accrued interest payable	57,639
Deposits	6,970
Noncurrent liabilities:	
Due within one year:	
Revenue bonds payable	60,000
Note payable	153,000
Capital leases	63,487
Compensated absences	67,950
Due in more than one year:	
Revenue bonds payable	1,282,264
Note payable	2,688,000
Capital leases	275,590
Net OPEB obligation	3,000
Compensated absences	67,951
Total liabilities	4,804,082
DEFERRED INFLOWS OF RESOURCES	
Deferred revenue - business tax receipts	12,643
Total deferred inflows of resources	12,643
NET POSITION	
Net investment in capital assets	5,139,781
Restricted for:	
Community development projects	1,450,161
Unrestricted	394,405
Total net position	\$ 6,984,347

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

Town of Melbourne Beach, Florida
Statement of Activities – Governmental Activities

Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities:			
General government	\$ 859,982	\$ 107,713	\$ 74,801
Public safety	1,205,796	15,388	8,339
Recreation	64,407	8,650	1,109
Physical environment	375,481	-	-
Interest on long-term debt	221,999	-	-
Total governmental activities	\$ 2,727,665	\$ 131,751	\$ 84,249

General revenues:

Property taxes

Public utility taxes

Franchise taxes

Shared revenues not restricted to
specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Miscellaneous

Total general revenues

Change in net position

Net position, beginning

Prior period adjustment (see Note 1.D.11)

Net position, beginning of year as restated

Net position, ending

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

Program Revenues		
	Capital Grants and Contributions	Net (Expense) Revenues and Change in Net Position
\$	-	\$ (677,468)
	-	(1,182,069)
	-	(54,648)
	759,297	383,816
	-	(221,999)
\$	759,297	(1,752,368)

	1,454,407
	549,783
	243,487
	192,375
	903
	630
	8,923
	2,450,508
	698,140
	6,305,951
	(19,744)
	6,286,207
\$	6,984,347

**Town of Melbourne Beach, Florida
Balance Sheet - Governmental Funds**

<i>September 30, 2014</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,376,647	\$ 1,207,365	\$ 8,042	\$ 218,416	\$ 2,810,470
Investments	120	-	-	-	120
Accounts receivable, net	189,173	-	-	1	189,174
Due from other governments	33,467	250,000	-	-	283,467
Prepaid items	55,924	-	-	-	55,924
Total assets	\$ 1,655,331	\$ 1,457,365	\$ 8,042	\$ 218,417	\$ 3,339,155
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 41,166	\$ -	\$ -	\$ 13,466	\$ 54,632
Accrued payroll and related liabilities	23,599	-	-	-	23,599
Deposits	6,970	-	-	-	6,970
Unearned revenue	113,306	-	-	-	113,306
Total liabilities	185,041	-	-	13,466	198,507
Deferred inflows of resources					
Deferred revenue - business tax receipts	12,643	-	-	-	12,643
Total deferred inflows of resources	12,643	-	-	-	12,643

**Town of Melbourne Beach, Florida
Balance Sheet - Governmental Funds (Continued)**

<i>September 30, 2014</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
Fund balance					
Nonspendable:					
Prepaid items	55,924	-	-	-	55,924
Restricted for:					
Debt service	-	-	8,042	-	8,042
Historic preservation	-	7,204	-	-	7,204
Stormwater construction	-	1,450,161	-	-	1,450,161
Law enforcement	-	-	-	1,429	1,429
Law enforcement education	-	-	-	15,210	15,210
Building department education	-	-	-	586	586
Old Town Hall	-	-	-	12,384	12,384
Stormwater utility	-	-	-	175,342	175,342
Unassigned	1,401,723	-	-	-	1,401,723
Total fund balances	1,457,647	1,457,365	8,042	204,951	3,128,005
Total liabilities and fund balances	\$1,655,331	\$1,457,365	\$ 8,042	\$ 218,417	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

8,461,917

Unearned (related to reimbursement for lease) recorded in the funds

has been reversed and recorded as revenue in governmental activities.

88,306

Unearned revenue (related to a lawsuit that was expensed in the prior year but will be reimbursed by an insurance claim) has been reversed and recorded against the expenditure account in the governmental activities.

25,000

Long-term liabilities, including bonds payable, accrued interest 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.

(4,718,881)

\$ 6,984,347

Town of Melbourne Beach, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

<i>Year ended September 30, 2014</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,660,856	\$ -	\$ 331,769	\$ 55,278	\$ 2,047,903
Licenses and permits	338,994	-	-	-	338,994
Intergovernmental	236,007	1,559,456	-	-	1,795,463
Charges for services	18,609	-	-	-	18,609
Fines and forfeitures	14,675	-	-	714	15,389
Interest	903	-	-	-	903
Miscellaneous	37,264	50	-	3,454	40,768
Total revenues	2,307,308	1,559,506	331,769	59,446	4,258,029
Expenditures					
Current:					
General government	675,752	-	-	-	675,752
Public safety	1,100,974	-	-	2,434	1,103,408
Recreation	9,283	-	-	334	9,617
Physical environment	242,312	31,211	-	34,151	307,674
Capital outlay	9,810	565,882	-	-	575,692
Debt service:					
Principal	98,812	-	251,841	-	350,653
Interest	24,390	-	199,609	-	223,999
Total expenditures	2,161,333	597,093	451,450	36,919	3,246,795
Excess (deficiency) of revenues over (under) expenditures	145,975	962,413	(119,681)	22,527	1,011,234
Other financing sources (uses)					
Transfers in	61	-	125,475	4,529	130,065
Transfers out	(130,065)	-	-	-	(130,065)
Proceeds from sale of capital assets	630	-	-	-	630
Net other financing sources (uses)	(129,374)	-	125,475	4,529	630
Net change in fund balances	16,601	962,413	5,794	27,056	1,011,864
Fund balances, beginning	1,441,046	494,952	2,248	177,895	2,116,141
Fund balances, ending	\$ 1,457,647	\$ 1,457,365	\$ 8,042	\$ 204,951	\$ 3,128,005

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, 2014

Net change in fund balances - total governmental funds	\$ 1,011,864
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	129,338
<p>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 position. This is the net effect of these differences in the treatment of long-term debt and related items.</p>	346,964
<p>Some revenues are recorded in the statement of activities, but since they do not provide current financial resources, they 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 a prior year.</p>	(10,182)
<p>Some revenues are recorded in the statement of activities, but since they do not provide current financial resources, they are not reported as revenues in the funds. This is the amount of revenues recorded in the statement of activities that is not reported in the funds.</p>	25,000
<p>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.</p>	3,548
<p>The St. John's Water Management District grant revenues are recorded in the funds, but must be removed since they were recorded as revenue in the statement of activities in the prior year but not in the funds.</p>	(800,159)
<p>The decrease in the other post-employment benefit obligations reported in the statement of activities does not provide current economic resources; therefore, it is not reported as a reduction of expenditures in governmental funds.</p>	1,000
<p>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.</p>	(9,233)
Change in net position of governmental activities	\$ 698,140

Town of Melbourne Beach, Florida
Statement of Fiduciary Net Position - Pension Trust Fund
Police Officers' Pension Plan

September 30, 2014

ASSETS

Cash and cash equivalents	\$ 78,490
Investments at fair value:	
Equity investments	1,683,379
Mutual funds	860,712
Accounts receivable	838
<hr/>	
Total assets	2,623,419

LIABILITIES

-

NET POSITION

Held in trust for pension benefits	\$ 2,623,419
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Town of Melbourne Beach, Florida
Statement Changes in Fiduciary Net Position - Pension Trust Fund
Police Officers' Pension Plan

Year ended September 30, 2014

ADDITIONS

Contributions:

Town	\$ 201,775
Employee	21,403
State	32,044

Total contributions	255,222
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Investment income:

Net appreciation in the fair value of investments	231,366
Interest and dividends	48,731

Net investment income	280,097
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Total additions	535,319
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DEDUCTIONS

Benefit payments	233,262
Administrative expenses	32,350

Total deductions	265,612
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Change in net position	269,707
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Net position held in trust for pension benefits, beginning of year	2,353,712
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Net position held in trust for pension benefits, end of year	\$ 2,623,419
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Town of Melbourne Beach, Florida Notes to Financial Statements

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 position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which 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 is 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.

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* is used to account for the accumulation of resources that are restricted for the payment of principal and interest on the library bond and Series 2005B bond.

Additionally, the Town reports the following fund type:

The *pension trust fund* accounts for assets, liabilities, revenues and expenses of the pension plans of the Town's police employees. The activities of this fund are subject to state mandatory regulations, local ordinances and the policies of the governing board.

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

Town of Melbourne Beach, Florida Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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, deferred inflows of resources and net position 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. Investments are stated at fair value based on quoted market prices.

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 ("Florida PRIME" and "Fund B"). 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. In fiscal year 2014, the SBA distributed the principal Fund B balances in full to each Fund B participant, and the weighted average life of the fund's assets is effectively zero and is considered closed.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred inflows of resources and net position or equity (continued)

1. Cash and investments (continued)

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.

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.

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 mils 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 \$4.0008 for 2014. The Town also levied taxes per \$1,000 of assessed value for the following: \$0.9999 for stormwater and \$0.1808 for the library for 2014. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred inflows of resources and net position or equity (continued)

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred inflows of resources and net position or equity (continued)

6. Unearned revenue

Unearned revenues are recorded for governmental fund receivables which are measurable but not available. Unearned revenues recorded on the governmental funds balance sheet in the amount of \$113,306 consist of funds related to the reimbursement of a fire truck lease and insurance claims not collected within the measurement period.

7. Deferred inflows of resources

Resources received before time requirements were met, which were previously reported as deferred revenue liabilities in the governmental funds, are now classified as deferred inflows of resources due to the implementation of GASB Statement No. 65.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium and discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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 (See Note 1.D.11).

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).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred inflows of resources and net position or equity (continued)

9. Fund equity (continued)

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. The Town has no committed fund balances at September 30, 2014.

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. The Town has no assigned fund balances at September 30, 2014.

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.

10. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

11. Accounting changes

The Town has implemented GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities”*, which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities.

The Statement requires governments to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources, or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred inflows of resources and net position or equity (continued)

11. Accounting Changes (continued)

Implementation required the Town to analyze items previously reported as "deferred." The Town reclassified unavailable revenues in governmental funds and resources received before time requirements were met to deferred revenues in the deferred inflows of resources category.

GASB Statement No. 65 also requires debt issuance costs to be expensed, the \$19,744 previously reported as a noncurrent asset in the Debt fund was adjusted to beginning net position. Below is a summarized table of unamortized debt issuance cost:

<u>Debt Issue</u>	<u>Unamortized Cost</u>
Series 2005B	\$ 19,744
Total	\$ 19,744

The Town has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", which amends the accounts and financial reporting guidance for pension plans administered through trusts. The statement required additional disclosures in the notes to the financial statements and required supplementary information.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, accrued interest, 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 \$(4,718,881) difference are as follows:

Bonds payable	\$ (1,375,000)
Plus: issuance premium (to be amortized over life of debt)	(30,158)
Less: deferred refunding loss (to be amortized over life of debt)	62,894
Accrued interest payable	(57,639)
Note payable	(2,841,000)
Capital lease	(339,077)
Net OPEB obligation	(3,000)
Compensated absences	(135,901)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$ (4,718,881)

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 2; RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

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 position 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 \$129,338 difference are as follows:

Capital outlay	\$	575,692
Depreciation expense		(446,354)
<hr/>		
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	\$	129,338
<hr/>		

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 position”. The details of this \$346,964 difference are as follows:

Principal repayments:		
Capital leases	\$	98,812
Revenue bonds		55,000
Ad valorem bonds		49,840
Note payable		147,000
Amortization of bond premium		3,334
Amortization of deferred refunding loss		(7,022)
<hr/>		
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	\$	346,964
<hr/>		

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At September 30, 2014, the Town's carrying amount of cash deposits was \$2,387,955 and the bank balance was \$2,432,133. In addition, the Town reported petty cash of \$350. As of September 30, 2014, \$250,000 of the Town's bank balance 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.

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.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and investments (continued)

At September 30, 2014, 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	\$ 422,285	\$ 422,285	\$ -	\$ -	\$ -	AAAm	S&P
	\$ 422,285	\$ 422,285	\$ -	\$ -	\$ -		
Pension trust funds:							
Money market fund	\$ 78,490	\$ 78,490	\$ -	\$ -	\$ -	Not rated	
Corporate stock	718,433	718,433	-	-	-	Not rated	
Bond mutual funds	964,946	964,946	-	-	-	Not rated	
Stock mutual funds	860,712	860,712	-	-	-	Not rated	
	\$ 2,622,581	\$ 2,622,581	\$ -	\$ -	\$ -		

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total Governmental Funds
Accounts receivable	\$ 164,315	\$ 1	\$ 164,316
Utility service tax	24,858	-	24,858
Total receivables	\$ 189,173	\$ 1	\$ 189,174

C. Due from other governments

Amounts due from other governments as of year-end for the government's individual major funds and nonmajor funds in the aggregate are as follows:

	General Fund	Capital Projects	Nonmajor Funds	Total Governmental Funds
Taxes and fees	\$ 33,467	\$ -	\$ -	\$ 33,467
Grant receivable	-	250,000	-	250,000
Total due from other governments	\$ 33,467	\$ 250,000	\$ -	\$ 283,467

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital assets

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	2,134,799	565,882	(2,700,681)	-
Total capital assets, not being depreciated	3,032,541	565,882	(2,700,681)	897,742
Capital assets, being depreciated:				
Buildings	2,491,586	-	-	2,491,586
Improvements other than buildings	1,149,462	-	-	1,149,462
Equipment	1,731,618	9,810	(27,085)	1,714,343
Infrastructure	3,147,874	2,700,681	-	5,848,555
Total capital assets being depreciated	8,520,540	2,710,491	(27,085)	11,203,946
Less accumulated depreciation for:				
Buildings	(683,362)	(76,696)	-	(760,058)
Improvements other than buildings	(634,939)	(55,370)	-	(690,309)
Equipment	(1,155,863)	(107,738)	27,085	(1,236,516)
Infrastructure	(746,338)	(206,550)	-	(952,888)
Total accumulated depreciation	(3,220,502)	(446,354)	27,085	(3,639,771)
Total capital assets being depreciated, net	5,300,038	2,264,137	-	7,564,175
Governmental activities capital assets, net	\$ 8,332,579	\$ 2,830,019	\$ (2,700,681)	\$ 8,461,917

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

Governmental activities:	
General government	\$ 208,879
Public safety	96,879
Cultural and recreational	72,524
Physical environment	68,072
Total depreciation expense – governmental activities	\$ 446,354

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund receivables, payable and transfers

The composition of interfund balances as of September 30, 2014, is as follows:

Transfers in:	Transfers out:	Amount
Debt Service Fund	General Fund	\$ 125,475
Nonmajor Funds	General Fund	4,529
General Fund	Nonmajor Fund	61
Total		\$ 130,065

Significant transfers included \$125,475 from the General fund to the Debt Service fund for debt service requirements.

F. 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	\$ 956,414
Less: Accumulated depreciation	(535,466)
Total	\$ 420,948

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

<i>Year Ending September 30,</i>	Principal	Interest	Total
2015	63,487	18,684	82,171
2016	40,012	14,733	54,745
2017	38,947	12,602	51,549
2018	38,739	10,492	49,231
2019	40,009	8,452	48,461
2020-2024	117,883	12,040	129,923
Total minimum lease payments	\$ 339,077	\$ 77,003	\$ 416,080

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. 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 mils 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 pledged gross revenues were \$50,944 and principal and interest payments were \$52,582 during 2014.

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, 2014 is \$1,375,000, plus an unamortized premium of \$30,158.

Annual debt service requirements to maturity for revenue bonds outstanding are as follows:

<i>Year ending September 30,</i>	Principal	Interest	Total
2015	\$ 60,000	\$ 66,230	\$ 126,230
2016	60,000	63,950	123,950
2017	65,000	61,125	126,125
2018	70,000	57,750	127,750
2019	70,000	54,250	124,250
2020-2024	415,000	212,375	627,375
2025-2029	515,000	97,625	612,625
2030	120,000	3,000	123,000
Totals	\$ 1,375,000	\$ 616,305	\$ 1,991,305

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. 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, 2014 is \$2,841,000.

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 \$280,825 and principal and interest payments were \$273,392 during 2014. As of September 30, 2014, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$3,822,400.

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

<i>Year Ending September 30,</i>	Principal	Interest	Total
2015	\$ 153,000	\$ 120,174	\$ 273,174
2016	160,000	113,702	273,702
2017	166,000	106,934	272,934
2018	173,000	99,912	272,912
2019	181,000	92,594	273,594
2020-2024	1,023,000	341,742	1,364,742
2025-2029	985,000	106,342	1,091,342
Totals	\$ 2,841,000	\$ 981,400	\$ 3,822,400

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term debt (continued)

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2014, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Ad valorem bonds payable	\$ 49,840	\$ -	\$ (49,840)	\$ -	\$ -
Revenue bonds payable	1,430,000	-	(55,000)	1,375,000	60,000
Bond premium	33,492	-	(3,334)	30,158	-
Deferred loss	(69,916)	-	7,022	(62,894)	-
Total bonds payable	1,443,416	-	(101,152)	1,342,264	60,000
Note payable	2,988,000	-	(147,000)	2,841,000	153,000
Capital leases	437,889	-	(98,812)	339,077	63,487
Net OPEB obligation	4,000	-	(1,000)	3,000	-
Compensated absences	126,668	58,704	(49,471)	135,901	67,951
Governmental activity long-term liabilities	\$4,999,973	\$ 58,704	\$ (397,435)	\$4,661,242	\$ 284,437

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

H. Operating leases

The Town does not have any long-term operating leases for the year ended September 30, 2014.

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 2014. Settled claims have not exceeded commercial excess coverage in any of the past three years.

NOTE 4: OTHER INFORMATION (Continued)

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. Additionally, as of July 1, 2011, the vesting requirement was increased from six (6) years to eight (8) years of service. The rates for employees as a percent of covered payroll vary depending on the employee's membership class. Total contribution rates were 10.37%, 9.95% and 8.18% for regular employees with the Town's contribution rate equal to 7.37%, 6.95% and 5.18% for 2014, 2013 and 2012, respectively. The amount of covered payroll for the years ended September 30, 2014, 2013, and 2012 were \$378,491, \$232,817 and \$297,514, respectively. The Town's contributions to the System for the three years ended September 30, 2014, 2013, and 2012 were \$27,895, \$13,310 and \$15,411, 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.

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, 2014.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 4: OTHER INFORMATION (Continued)

B. Retirement commitments – defined benefit plans (continued)

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 \$201,775 which approximated the actuarially determined contribution of \$200,907 for the plan year ended September 30, 2014. 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 \$201,775, and the amount funded by member, Town, and State contributions was \$255,222.

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.

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

	Fiscal Year Ended	Annual Pension Cost (APC)	Percent of APC Contributed
Police Plan	2014	\$ 232,950	100%
	2013	230,418	100%
	2012	197,503	100%

Town of Melbourne Beach, Florida
Notes to Financial Statements

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
2014	\$ 232,950	200,906	\$ 32,044	-
2013	230,417	198,708	31,709	-
2012	197,503	164,560	32,943	-

GASB Statement No. 67 Required Disclosures

Plan Description

Police Pension Plan

Plan Administration

The Plan is administered by a Board of Trustees comprised of:

- a) Two Commission appointees,
- b) Two Members of the Department elected by the membership, and
- c) A fifth member elected by other 4 and appointed by the Commission

<u>Plan Membership as of October 1, 2014:</u>	<u>Police Pension Plan</u>
Inactive Plan Members or Beneficiaries	
Currently Receiving Benefits	7
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	1
Active Plan Members	9
Total Plan Members	17

Police Pension Plan:

Normal Retirement:

Date: Earlier of: 1) Age 55 and 10 years of Credited Service, or 2) age 52 and 20 years of Credited Service.

Benefit: 3.0% of Average Final Compensation times Credited Service.

Benefit Supplement: In addition, members retiring after 10/01/98 with 20 or more years of service, or on or after 10/01/02 at Normal Retirement, receive a monthly benefit supplement equal to \$10 for each full year of Credited Service.

**Town of Melbourne Beach, Florida
Notes to Financial Statements**

NOTE 4: OTHER INFORMATION (Continued)

B. Retirement commitments – defined benefit plans (continued)

Early Retirement:

Date: Age 50 and 10 years of Credited Service.

Benefit: Accrued benefit, reduced 3% per year prior to Normal Retirement.

Vesting:

Schedule: 100% after 10 years of Credited Service.

Benefit:

Member will receive the vested portion of his (her) accrued benefit payable at the otherwise Normal Retirement Date.

Disability:

Service Incurred: Covered from Date of Employment.

Non-Service Incurred: 10 years of Credited Service.

Benefit: Service Incurred: 50% of rate of regular base pay.

Non-Service Incurred: Benefit accrued to date of disability but not less than 25% of Average Monthly Earnings.

Death Benefits:

Vested: Accrued benefit payable to beneficiary for 10 years at otherwise Normal Retirement Date.

Note Vested: Refund of accumulated contributions.

Investment Policy:

The following was the Board's adopted asset allocation policy as of September 30, 2014:

Asset Class	Target Allocation
	Police Pension Plan
Domestic Equity	55%
International Equity	10%
Broad Market Fixed Income	30%
TIPS	5%
Total	100%

Concentrations:

The Plan did not hold investments in any one organization that represent 5% or more of the Pension Plan's fiduciary net position.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 4: OTHER INFORMATION (Continued)

B. Retirement commitments – defined benefit plans (continued)

Rate of Return:

For the year ended September 20, 2014, the annual money-weighted rate of return of Pension Plan investments, net of pension plan investment expense, was 10.99%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

Net Pension Liability Of The Sponsor. The components of the net pension liability of the sponsor on September 30, 2014 were as follows:

	Police Pension Plan
Total Pension Liability	\$ 3,361,024
Plan Fiduciary Net Position	(2,622,552)
Sponsor's Net Pension Liability	\$ 738,472

Plan Fiduciary Net Position as a percentage of Total Pension Liability	78.03%
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Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014 using the following actuarial assumptions applied to all measurement periods.

	Police Pension Plan
Inflation	3.00%
Salary Increases	6.00%
Investment Rate of Return	8.00%

Police Pension Plan
RP-2000 Table with no projection - Based on a study of over 650 public safety funds, this table reflects 10% margin for future mortality improvements. (Disabled lives set forward 5 years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investments expenses and inflation) are developed for each major asset class.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 4; OTHER INFORMATION (Continued)

B. Retirement commitments – defined benefit plans (continued)

These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

Asset Class	Term Long Expected Real Rate of Return Police Pension Plan
Domestic Equity	7.50%
International Equity	8.50%
Broad Market Fixed Income	2.50%
TIPS	2.50%

Discount Rate:

The discount rate used to measure the total pension liability was 8.00%.

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Sponsor's Net Pension Liability	\$ 1,091,172	\$ 738,472	\$ 472,727

Required Supplementary Information (RSI) following the notes to financial statements provides multi-year trend data to help determine whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 4: OTHER INFORMATION (Continued)

C. 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 with at least 6 years of pension service for general employees, or after attaining age 52 with at least 20 years of pension 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 Commission 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.

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, 2014, the Town’s contribution is \$5,000, which represents an estimate of the implied subsidy described above. Contributions of Plan members totaled \$24,048 for the year ended September 30, 2014.

Town of Melbourne Beach, Florida
Notes to Financial Statements

NOTE 4: OTHER INFORMATION (Continued)

D. Other post-employment benefits (continued)

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, 2014, the amount actually contributed to the Plan, and changes in the Town’s net OPEB obligation to the Plan:

Annual required contribution	\$	5,000
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost	\$	5,000
* Contributions made		(6,000)
Interest on employer contributions		-
Decrease in net OPEB obligation		(1,000)
Net OPEB obligation – beginning of year		4,000
Net OPEB obligation – end of year	\$	3,000

* Contributions made in the table above reflect a contribution credit for an implied subsidy of \$3,000 per year when a retiree is between the age of 62 and 65.

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
09/30/14	5,000	100%	3,000
09/30/13	6,000	100%	4,000
09/30/12	7,000	100%	4,000

Employee retirement plans – combining fund information

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 October 1, 2013. Accordingly, the Town will be required to obtain a subsequent actuarial valuation within three years of that date. As of September 30, 2014, the actuarial accrued liability for benefits was \$26,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$541,000, and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 4.8%.

NOTE 4: OTHER INFORMATION (Continued)

D. Other post-employment benefits (continued)

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 two years are 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 October 1, 2013 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 8.0% initially, reduced by decrements to an ultimate rate of 5.0% 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.

NOTE 4; OTHER INFORMATION (Continued)

E. Litigation

Various lawsuits in the ordinary course of operations are pending against the Town. While the ultimate effect of such litigation cannot be ascertained at this time, in the opinion of counsel for the Town, the liabilities that may arise from such actions would not result in losses that would exceed the liability insurance limits in effect at the time the claim arose or otherwise materially affect the financial position of the Town or results of operations.

F. Subsequent Events

On January 26, 2015, the Town entered into an agreement with a termination date of September 30, 2015 with the Governing Board of the St. Johns River Water Management District. The District will pay the Town 33% of total estimated basin 1 & 3 stormwater drainage improvement construction project costs of \$175,000 not to exceed \$57,750.

G. Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Town is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

**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

Police Pension Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability AAL Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL a % of Covered Payroll ((b-a)/c)
10/1/2014	\$ 2,519,874	\$ 3,389,607	\$ 869,733	74.34%	\$ 453,741	191.68%
10/1/2013	2,276,007	3,273,863	997,856	69.52%	445,185	224.14%
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%

Town of Melbourne Beach, Florida
Required Other Postemployment Benefits Supplementary Information –
Schedule of Contributions from the Employee And Other Contributing Entities –
Last Six Years

Police Pension Plan:

Year Ended September 30	Annual Required Contribution	Town Contribution	State Contribution	Percentage Contributed
2014	\$ 232,950	\$ 200,906	\$ 32,044	100.00%
2013	230,417	198,708	31,709	100.00%
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%

Town of Melbourne Beach, Florida
Required Supplementary Pension Information – Schedules of Changes in Net
Position Liability and Related Ratios – Last Fiscal Year

Total Pension Liability	Police Pension Plan	
Service cost	\$	92,542
Interest		257,604
Benefit payments, including refunds of employee contributions		(233,262)
Net change in total pension liability		116,884
Total pension liability - beginning		3,244,140
Total pension liability - ending (a)	\$	3,361,024
Plan Fiduciary Net Position		
Contributions - employer	\$	200,907
Contributions - state		32,044
Contributions - employee		21,403
Net investment income		255,971
Benefit payments, including refunds of employee contributions		(233,262)
Administrative expense		(8,111)
Net change in plan fiduciary net position		268,952
Plan fiduciary net position - beginning		2,353,600
Plan fiduciary net position - ending (b)	\$	2,622,552
Net pension liability - ending (a) - (b)	\$	738,472
Plan fiduciary net position as a percentage of the total pension liability		78.03%
Covered employee payroll	\$	428,060
Net pension liability as a percentage of covered employee payroll		172.52%

Town of Melbourne Beach, Florida
Required Supplementary Pension Information – Schedules of Contributions
Last Fiscal Year

	Police Pension Plan	
Actuarially determined contribution	\$	232,950
Contributions in relation to the actuarially determined contributions		232,950
Contribution deficiency	\$	465,900
Covered employee payroll	\$	428,060
Contributions as a percentage of covered employee payroll		54.42%

Town of Melbourne Beach, Florida
Required Supplementary Pension Information – Notes to Schedule

Valuation Date: 10/1/2012

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

Methods and assumptions used to determine contribution rates:

Funding Method:	Entry Age Normal Actuarial Cost Method
Amortization Method:	Level Percentage of Pay, Closed
Remaining Amortization Period:	29 Years (as of 10/01/2012)
Asset Valuation Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric four-year average Market Value return (net of fees). It is possible that over time this technique will produce an insignificant bias above or below Market Value of Assets.
Inflation:	3.0% per year.
Salary Increases:	6.0% per year until the assumed retirement age.
Interest Rate:	8% per year, compounded annually.
Payroll Growth:	2.0% for amortization of all Unfunded Actuarial Accrued Liability bases prior to the 2011 benefit change.
Early Retirement Rate:	Commencing upon eligibility for Early Retirement, Members are assumed to retire with an immediate benefit at the rate of 5.0% per year
Termination Rates:	See table below
Disability Rates:	See table below. It is assumed that 75% of disablements and active Member deaths are service related.
Mortality:	RP-2000 Table projected to the valuation date using scale AA. Disabled lives are set forward 5 years.
Other Information:	Termination and Disability Rate Tables.

Town of Melbourne Beach, Florida
Required Supplementary Pension Information – Notes to Schedule (Continued)

Police Pension Fund		
Age	% Terminating During the Year	% Becoming Disabled During the Year
20	17.2%	0.14%
30	15.0%	0.18%
40	8.2%	0.30%
50	1.7%	0.01%

Town of Melbourne Beach, Florida
Required Supplementary Pension Information – Schedule of Investment Returns
Last Fiscal Year

<u>For the year ended September 30,</u>	<u>Police Pension Plan</u>
Annual money-weighted rate of return	
Net of investment expense	10.99%

Town of Melbourne Beach, Florida
Required Other Postemployment Benefits Supplementary Information -
Schedule of Funding Progress - Most Recent Actuarial Valuation

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability AAL (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as % of Covered Payroll ((b-a)/c)
10/1/2013	\$ -	\$ 26,000	\$ 26,000	0.0%	\$ 541,000	4.81%
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 two years are 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

<i>Year ended September 30, 2014</i>	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,647,873	\$ 1,575,624	\$ 1,660,856	\$ 85,232
Licenses and permits	320,429	334,823	338,994	4,171
Intergovernmental	230,642	195,957	236,007	40,050
Charges for services	21,660	28,378	18,609	(9,769)
Fines and forfeitures	10,300	1,191	14,675	13,484
Miscellaneous (including interest)	28,561	31,259	38,167	6,908
Total revenues	2,259,465	2,167,232	2,307,308	140,076
Expenditures				
General government:				
Legislative	98,015	89,678	91,373	(1,695)
Executive	135,465	164,527	167,654	(3,127)
Finance	89,086	93,698	95,150	(1,452)
Legal counsel	65,575	67,897	80,109	(12,212)
Comprehensive planning	20,000	27,770	27,770	-
General services	226,009	213,562	213,696	(134)
Total general government	634,150	657,132	675,752	(18,620)
Public Safety:				
Law enforcement	949,170	981,805	991,259	(9,454)
Fire control	190,461	164,750	165,069	(319)
Building department	65,774	72,014	71,819	195
Code enforcement	27,503	5,839	5,839	-
Total public safety:	1,232,908	1,224,408	1,233,986	(9,578)
Recreation	9,400	9,282	9,283	(1)
Physical environment	252,947	240,870	242,312	(1,442)
Total expenditures	2,129,405	2,131,692	2,161,333	(29,641)
Excess of revenues over expenditures	130,060	35,540	145,975	110,435
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	630	630
Transfers in	-	61	61	-
Transfers out	(130,060)	(130,053)	(130,065)	(12)
Net other financing (uses)	(130,060)	(129,992)	(129,374)	(12)
Excess of revenues and other financing sources over expenditures and other financing uses	-	(94,452)	16,601	111,053
Fund balances, beginning of year	1,441,046	1,441,046	1,441,046	-
Fund balances, end of year	\$ 1,441,046	\$ 1,346,594	\$ 1,457,647	\$ 111,053

Town of Melbourne Beach, Florida Notes to Required Supplementary Information

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, 2014, expenditures exceeded appropriations in the General Fund as follows:

Department	Amount Overexpended	Items Not Included in Budget or Underbudgeted
Legislative	\$ 1,695	Offsite meetings and travel for Town Clerk.
Executive	3,127	Salary expense for temporary help due to vacancies.
Finance	1,452	Additional audit and professional fees.
Legal Counsel	12,212	Increased fees from Code Enforcement Attorney.
General Services	134	Additional yearend accruals.
Law Enforcement	9,454	Additional pension plan contributions.
Fire Control	319	Upgrading 800 MHZ radios.
Physical Environment	1,442	Additional maintenance costs.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

Town of Melbourne Beach, Florida
Combining Balance Sheet - Nonmajor Governmental Funds

<i>September 30, 2014</i>	Special Revenue			
	Law Enforcement Forfeiture	Police Education Fund	Police Donations Fund	Building Education Fund
ASSETS				
Cash and cash equivalents	\$ 1,429	\$ 10,515	\$ 4,695	\$ 586
Accounts receivable, net	-	-	-	-
Total assets	\$ 1,429	\$ 10,515	\$ 4,695	\$ 586
LIABILITIES				
Accounts payable	-	-	-	-
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	-
Law enforcement	1,429	-	-	-
Law enforcement education	-	10,515	4,695	-
Building department education	-	-	-	586
Stormwater utility	-	-	-	-
Old Town Hall	-	-	-	-
Total fund balances	1,429	10,515	4,695	586
Total liabilities and fund balances	\$ 1,429	\$ 10,515	\$ 4,695	\$ 586

Special Revenue

	Old Town Hall	Stormwater Utility Fund	Nonmajor Governmental Funds	Total
	\$ 12,384	\$ 188,807	\$ 218,416	
	-	1	1	
	<u>\$ 12,384</u>	<u>\$ 188,808</u>	<u>\$ 218,417</u>	
	-	13,466	13,466	
	-	-	-	
	-	-	1,429	
	-	-	15,210	
	-	-	586	
	-	175,342	175,342	
	12,384	-	12,384	
	<u>12,384</u>	<u>175,342</u>	<u>204,951</u>	
	<u>\$ 12,384</u>	<u>\$ 188,808</u>	<u>\$ 218,417</u>	

Town of Melbourne Beach, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
- Nonmajor Governmental Funds

	Special Revenue			
<i>September 30, 2014</i>	Law Enforcement Forfeiture	Police Education Fund	Police Donations Fund	Building Education Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	714	-	-
Miscellaneous	-	-	2,060	286
Total revenues	-	714	2,060	286
EXPENDITURES				
Current:				
Public safety	-	540	1,894	-
Recreation	-	-	-	-
Physical environment	-	-	-	-
Total expenditures	-	540	1,894	-
Excess of revenues over expenditures	-	174	166	286
Other financing sources				
Transfers in	-	-	4,529	-
Net other financing sources	-	-	4,529	-
Net changes in fund balances	-	174	4,695	286
Fund balances, beginning of year	1,429	10,341	-	300
Fund balances, end of year	\$ 1,429	\$ 10,515	\$ 4,695	\$ 586

Special Revenue

	Old Town Hall	Stormwater Utility Fund	Total Nonmajor Governmental Funds
\$	-	\$ 55,278	\$ 55,278
	-	-	714
	1,108	-	3,454
	1,108	55,278	59,446
	-	-	2,434
	334	-	334
	-	34,151	34,151
	334	34,151	36,919
	774	21,127	22,527
	-	-	4,529
	-	-	4,529
	774	21,127	27,056
	11,610	154,215	177,895
\$	12,384	\$ 175,342	\$ 204,951

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the Town of Melbourne Beach, Florida's basic financial statements, and have issued our report thereon dated November 12, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies – 2014-001, 2014-002 and 2014-003 – described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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 consider the deficiencies – 2014-004, 2014-005 and 2014-006 – described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

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

The Town of Melbourne Beach’s Response to Findings

The Town of Melbourne Beach’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town of Melbourne Beach’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Cau, Riggs & Ingram, L.L.C.

Melbourne, Florida
November 12, 2015



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Melbourne Beach, Florida's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Melbourne Beach, Florida's major federal programs for the year ended September 30, 2014. The Town of Melbourne Beach, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Melbourne Beach, Florida's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Melbourne Beach, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Melbourne Beach, Florida's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Melbourne Beach, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-007, 2014-008, 2014-009 and SA 2013-001. Our opinion on each major federal program is not modified with respect to these matters.

The Town of Melbourne Beach's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs.

The Town of Melbourne Beach's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Town of Melbourne Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Melbourne Beach, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Melbourne Beach, Florida's internal control over compliance.

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

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

identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs in 2014-006 and 2014-010 that we consider to be significant deficiencies.

The Town of Melbourne Beach, Florida's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Town of Melbourne Beach, Florida's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Carri Riggs & Ingram, L.L.C.

Melbourne, Florida
November 12, 2015

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**Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs
Fiscal Year ended September 30, 2014**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes __ no
- Significant deficiency(ies) identified? X yes __ none reported

Noncompliance material to financial statements noted? __ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? X yes __ no
- Significant deficiency(ies) identified? X yes __ none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X yes __ no

Identification of major federal program:

<u>Federal CFDA Number</u>	<u>Federal Program or Cluster</u>
66.460	Nonpoint Source Implementation Grants

Dollar threshold used to distinguish between type A and B programs was \$300,000 for major federal programs.

Auditee qualified as a low-risk auditee for federal purposes? __ yes X no

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

A. Internal Control Over Financial Reporting

2014-001 FUND BALANCES – *Material Weakness*

Criteria: Upon acceptance of the audit by the Town Commission, the Town's general ledger should be reconciled to the audited financial statements to ensure that internal financial records are in agreement with audited information.

Condition: An adjusting journal entry was required as of September 30, 2013 to record retainage payable on construction projects in progress as of year-end. The Town did not post this adjusting journal entry in their general ledger, resulting in a variance in beginning fund balance from the audited financial statements of \$190,436.

Cause: A reconciliation of opening fund balances to the audited financial statements was not performed by Town personnel. The accrual for retainage as of September 30, 2013 identified during the year-end audit was not booked, causing beginning fund balance for the fiscal year ended September 30, 2014 to be misstated by \$190,436.

Effect: Beginning fund balance and current year capital outlay were overstated by \$190,436 for the year ended September 30, 2014. This also caused project expenditures on earlier drafts of the Schedule of Expenditures of Federal Awards to be overstated by that same amount.

Recommendation: We recommend the Town review its year-end close procedures to ensure that review of all open construction contracts occurs and that retainage payable, when applicable, be recorded in the Town's general ledger. Additionally, we recommend the Town reconcile its general ledger to the audited financial statements promptly upon acceptance by the Town Commission to ensure that the internal financial records of the Town are in agreement with the audit report and to provide for accurate financial information in the current year.

Management's Response: The Town developed and implemented a year-end close procedures. The Year-End close procedure will ensure review of open construction contracts, retainage payable, prepaids, accruals, depreciation & amortization and asset acquisitions in addition to additional categories.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

A. Internal Control Over Financial Reporting (Continued)

2014-002 RECONCILIATION OF CASH ACCOUNTS – *Material Weakness*

Criteria: Section 1200: Generally Accepted Accounting Principles and Legal Compliance of the *Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards* provides adherence to Generally Accepted Accounting Principles (GAAP) to assure that financial reports of the Town contain financial information based on appropriate measurement and classification criteria. Reconciliation of the Town's cash accounts to monthly statements from the financial institutions is a basic tenet of accounting to ensure financial information is in compliance with GAAP.

Condition: Upon our initial attempt to begin audit fieldwork on the financial statements of the Town for the fiscal year ended September 30, 2014, we noted the Town's cash accounts had not been reconciled to the monthly bank statements since May of 2014. While adequate time was provided to the Town to perform the reconciliations, the Town provided to the auditors more adjusting entries that impacted the pooled cash account by approximately \$23,000 after audit fieldwork was resumed in September 2015. Further, it was necessary for the auditors to propose additional adjusting entries to correct errors in the reconciliation of the operating account discovered during the performance of our audit procedures. Additionally, the bank reconciliation as of September 30, 2014 did not contain the initials (documented approval) of a review performed by an individual independent from the preparer of the reconciliation.

Cause: Personnel assigned with the responsibility for maintaining the financial records failed to perform timely reconciliations of the Town's cash accounts. Further, personnel assigned with the responsibility to review the monthly bank reconciliations did not timely identify that reconciliations were not being performed.

Effect: Funds received as a direct deposit (wire) from the State of Florida and other customers were not being recorded in the Town's general ledger from May 2014 through September 2014, substantially understating the Town's revenues (approximately \$200,000). Reconciliations, once prepared, contained errors including, but not limited to, reconciling items for cash receipts received by the Town in December 2014 posted as deposits in the Town's operating account in the July 2014 accounting period. As a result, an adjusting journal entry of approximately \$17,000 was needed to correct the operating cash balance at September 30, 2014. Additionally, the bank reconciliation as of September 30, 2014 did not have documentation that a review was performed of the bank reconciliation. Therefore, we were unable to determine compliance with the Town's policy that requires review of the reconciliations by an individual independent from the preparer of the bank reconciliation.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

A. Internal Control Over Financial Reporting (Continued)

2014-002 RECONCILIATION OF CASH ACCOUNTS (Continued)

Recommendation: We recommend management implement procedures to provide reasonable assurance that all bank accounts are reconciled to the Town's general ledger on a monthly basis. Additionally, a person independent from the preparer should review the bank reconciliation for accuracy and initial as auditable documentation of his/her review.

Management Response: The Town has budgeted and contracted an independent person to review and initial the bank statements and additional documents as auditable documents.

2014-003 RECEIVABLES AND AMOUNTS DUE FROM OTHER GOVERNMENTS – *Material Weakness*

Criteria: National Council on Governmental Accounting (NCGA) Statement No. 1, *Governmental Accounting and Financial Reporting Principles*, establishes the standard for the modified-accrual recognition of revenues and other financial resource increments in governmental funds. It states that revenues should be recognized in the accounting period in which they become both measurable and available. As noted in Note 1(C), the Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Additionally, GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, requires an asset (receivable) to be recorded for nonexchange transactions such as Federal or state grants once all eligibility requirements are met. Revenue recognition is subject to the availability criterion.

Condition: Adjusting journal entries were necessary to properly accrue receivables in the amount of \$46,196 to properly recognize amounts due to be collected for franchise fees and an insurance reimbursement. An additional entry was needed to provide for deferral of revenue recognition of the insurance monies in the fund financial statements, as the funds were not received within the period of availability. Adjusting journal entries totaling \$254,486 were also needed to properly record amounts due from other governments and revenue associated with a grant program and local option gas taxes.

Cause: The Town is not providing for proper recording of receivables, including amounts due from other governments, and revenue recognition pursuant to NCGA Statement No. 1 and GASB Statement No. 33.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

A. Internal Control Over Financial Reporting (Continued)

2014-003 RECEIVABLES AND AMOUNTS DUE FROM OTHER GOVERNMENTS (Continued)

Effect: Revenues and receivables in the General Fund were understated, prior to audit adjustment, by \$275,682. The net position – governmental activities of the Town was understated, prior to audit adjustment, by \$300,682.

Recommendation: We recommend the Town implement procedures to ensure that receivables are recorded and revenue recognized pursuant to generally accepted accounting standards.

Management's Response: The Town has budgeted and contracted an independent person to review and initial monthly receivables as auditable documentation. Daily processes were previously established to ensure receivables were recorded and revenues recognized on a daily and weekly basis.

2014-004 ACCOUNTS PAYABLE – *Significant Deficiency*

Criteria: Section 1500: Reporting Liabilities of the *Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards* requires a government to accrue a liability and expense in the period in which the government incurs the liability. Accounts payable should be recorded for all invoices for goods or services received on or before the balance sheet date.

Condition: An adjusting journal entry was required for fiscal year 2014 to record accounts payable for services or goods incurred or received prior to the balance sheet date.

Cause: The Town has historically monitored budgeted expenditures. However, in fiscal year 2014, invoices received subsequent to the balance sheet date were not accrued to the proper accounting period. Currently, the Town's financial information is being maintained on a quasi-cash basis rather than on the modified accrual basis, as set forth by GAAP.

Effect: During the audit, journal entries totaling more than \$25,000 were required to provide for proper accrual of accounts payable at September 30, 2014. Liabilities and related expenditure accounts were understated prior to the audit adjustment. Further, the Town's legal level of budgetary control is at the department level. In addition to the risks associated with inaccurate interim financial information being provided to management and to the Commission, improper accrual of accounts payable substantially increases the risk that departments will inadvertently overspend their budgeted appropriations, which occurred during the fiscal year ended September 30, 2014.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

A. Internal Control Over Financial Reporting (Continued)

2014-004 ACCOUNTS PAYABLE (Continued)

Recommendation: We recommend the Town implement procedures to provide reasonable assurance that all amounts due to vendors are properly accrued in the correct accounting period.

Management Response: Procedures have been implemented to ensure all accruals are completed timely and correctly. The Town has budgeted and contracted an independent person to review and initial monthly receivables as auditable documentation.

2014-005 FINANCIAL REPORTING TO MANAGEMENT – *Significant Deficiency*

Criteria: Section 1200: Generally Accepted Accounting Principles and Legal Compliance of the *Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards* provides adherence to Generally Accepted Accounting Principles (GAAP) to assure that financial reports of the Town contain financial information based on appropriate measurement and classification criteria. This criteria is to be applied to all reports issued by the Town, including those issued to the Town Commission and management. Further, in addition to review of budget variances, fluctuation analysis between account balances should be performed periodically (month to month and year to year) to assist management in detecting unexpected changes in account balances or results of operations and identification of potential errors.

Condition: The Town is not maintaining its general ledger on the modified accrual basis of accounting as required by Town policy. Additionally, the Town is not currently reconciling its general ledger to subsidiary ledgers for receivables or capital assets and procedures are not being followed to ensure that schedules are reviewed by an individual independent from the preparer to ensure the schedules are mathematically accurate and that balances agree to supporting documentation and to the general ledger. Also, management does not have procedures in place to ensure significant variances between time periods are researched and analyzed for reasonableness.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

A. Internal Control Over Financial Reporting (Continued)

2014-005 FINANCIAL REPORTING TO MANAGEMENT (Continued)

Cause: The Town is not currently following its policies with regards to maintaining the Town's financial records on the modified accrual basis of accounting. Further, there are no procedures in place to provide for reconciliation of subsidiary ledgers to the general ledger, nor are there procedures in place to ensure that all schedules prepared by the Town's Finance Manager are being reviewed for accuracy and agreement to the underlying accounting records. In Excel schedules provided to the auditors, we noted that totals had been hard-coded rather than using formulas and that schedules were not mathematically accurate nor did they agree to the Town's general ledger.

Effect: Schedules and subsidiary ledgers provided to the auditors related to debt activity, accounts receivable, due from other governments, cash account reconciliations, and capital assets were mathematically inaccurate and did not agree to underlying support such as amortization schedules, bank statements. Further, schedules and subsidiary ledgers were not being agreed to the Town's general ledger. Management was unable to provide the auditors with explanation of certain significant variances between account balances, resulting in the need for modification of the audit plan and the application of additional audit procedures.

Recommendation: In addition to management's review of budget to actual financial reports, we recommend management develop and implement procedures to perform periodic year-over-year fluctuation analysis of account balances to include 'balance sheet' accounts as well as revenues and expenditures. We recommend that someone independent from the preparer review schedules to ensure that schedules are mathematically accurate and are in agreement with underlying documentation and with the Town's accounting records. The reviewer should initial the schedule or create a log of review activity as documentation of completion of his/her review. We also recommend that formulas be used in Excel schedules for sums/totals rather than having amounts hard-coded into the worksheet to improve mathematical accuracy and to allow for ease of editing.

Management Response: New Excel spreadsheets have been developed for the FY15 reporting period. We will implement periodic year-over-year reviews, to include the balance sheet as well as revenue and expenditures and log reviews accordingly.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

B. Internal Control Over Financial Reporting (Continued)

**2014-006 YEAR-END CLOSE OF FINANCIAL RECORDS AND ANNUAL FINANCIAL REPORTING –
*Significant Deficiency***

Criteria: Section 218, Florida Statutes establishes an audit threshold for municipalities and requires audit reports to be submitted to the Florida Department of Financial Services and the Florida Auditor General no later than nine months after the end of the entity's fiscal year (June 30th), as well as requiring the Town to complete and remit an annual financial report to the Florida Department of Financial Services no later than June 30th of each year. Further, Subpart C Section 320(b) of OMB Circular A-133 requires the Town to submit their audit report along with the completed and certified Data Collection Form to the Federal Audit Clearinghouse no later nine months after the Town's fiscal yearend for which the Federal Single Audit requirements were applicable, i.e., June 30th.

Condition: The Town was posting adjustments to the general ledger for the fiscal year ended September 30, 2014 as late as September 8, 2015. Additionally, the Town was not able to provide reconciliations and schedules necessary to provide for a proper year-end closing of the financial records in time to meet the June 30th reporting deadlines.

Cause: The Town experienced turnover in Finance personnel in fiscal year 2014. The current Finance Manager does not have sufficient experience with the Town's accounting software or with governmental accounting rules. While the Town did eventually hire a consultant to assist the Finance Manager with year-end close of the financial records, the consultant did not have a working knowledge of accounting using the modified accrual basis of accounting.

Effect: The Town did not meet the June 30, 2015 deadline to file their annual financial report with the Florida Department of Financial Services (DFS) or the deadline to file their audit report with the DFS and with the Florida Auditor General. Further, the Town did not meet the June 30, 2015 deadline to file the Data Collection Form with the Federal Audit Clearinghouse for compliance with the Federal Single Audit.

Recommendation: We recommend management implement procedures to provide reasonable assurance that the fiscal year-end accruals and journal entries are posted timely and that fiscal year financial records are closed in sufficient time to allow for completion of the audit of the financial statements and for preparation of the annual financial report. This can be done through routine reconciliation of key accounts throughout the fiscal year and the use of a checklist to assist Town personnel on identifying and completing processes that are only performed on an annual basis.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

C. Internal Control Over Financial Reporting (Continued)

Management Response: The Town has developed and implemented month-end and yearend closing procedures to ensure the ability to have timely reconciliation of the records and completion of the Town's annual financial audit.

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

B. Compliance and Other Matters

None to be reported.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS PROGRAMS

A. Compliance

2014-007 DAVIS-BACON ACT

U.S. Department of Environmental Protection

CFDA No. 66.460 – Nonpoint Source Implementation Grant

Criteria: OMB Circular A-133 guidance referencing Section 29 CFR Part 5 requires the Town to include language in any construction contracts (and subcontracts) in excess of \$2,000 funded by the federal award program referenced above to include clauses mandating compliance with the Federal Davis-Bacon Act related to the payment of prevailing wages. Additionally, the Town is required to obtain and monitor weekly payroll certifications for all wages paid by the construction contractor – and their subcontractors – for work performed on the project funded by the federal award program.

Condition: During testing of the expenditures of the major federal award program (CFDA No. 66.460), we noted the construction contract(s) did not contain required compliance language and that the Town was not obtaining and monitoring certified payroll reports from the contractor(s).

Questioned Costs: The total questioned costs in fiscal year 2014 could not be determined.

Cause: There were no procedures in place to ensure that personnel assigned the responsibility of overseeing the Town's compliance with OMB Circular A-133 and provisions of the award program were familiar with the requirement to include prevailing wage language in the construction contracts and with the requirement to obtain and monitor weekly certified payroll reports.

Effect: The Town is not in compliance with the Davis-Bacon Act provisions of OMB Circular A-133.

Recommendation: We recommend the Town review any on-going construction contracts being funded with federal award programs for which the Federal Davis-Bacon Act applies and amend any open contracts to include the prevailing wage clauses. Further, the Town should assign personnel to be responsible for collecting and monitoring the weekly certified payroll reports for these construction contracts. For new projects, the Town should assign a person to be responsible for ensuring the Town's compliance with the provisions of the Federal Davis-Bacon Act.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS PROGRAMS (Continued)

A. Compliance (Continued)

Management Response: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to David Bacon there will be several additional review categories related to SAM, internal work logs, contract review process and others.

2014-008 PROCUREMENT – SYSTEM FOR AWARD MANAGEMENT (“SAM”)
U.S. Department of Environmental Protection
CFDA No. 66.460 – Nonpoint Source Implementation Grant

Criteria: OMB Circular A-133 guidance referencing Section 2 CFR 180.220 requires the Town of Melbourne Beach to determine procurement contracts equal to or exceeding \$25,000 are not suspended or debarred, and specifies the means that will be used to make that determination, i.e., checking the exclusions list in the SAM (previously known as the Excluded Parties List System).

Condition: During testing of the expenditures of the major federal award program (CFDA No. 66.460), we noted one vendor that received payments in excess of \$25,000 for which a SAM verification performed prior to payment was not documented. The auditors researched the two vendors associated with this project, noting neither was listed as an excluded party.

Questioned Costs: None.

Cause: There were no procedures in place to ensure that personnel assigned the responsibility of overseeing the Town’s compliance with OMB Circular A-133 and provisions of the award program were familiar with the requirement to determine that vendors receiving payment under the program were not suspended or debarred from doing business with the federal government.

Effect: The Town is not in compliance with the procurement provisions of OMB Circular A-133.

Recommendation: We recommend the Town perform a SAM verification for all vendors (entities) receiving payment of \$25,000 or more from federal award program funds. This verification should be documented by notation in the vendor file to include the date the verification was performed and the signature of the person performing the verification.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS PROGRAMS (Continued)

A. Compliance (Continued)

Management Response: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to David Bacon there will be several additional review categories related to SAM, internal work logs, contract review process and others.

2014-009 ALLOWABLE COSTS AND ACTIVITIES

U.S. Department of Environmental Protection

CFDA No. 66.460 – Nonpoint Source Implementation Grant

Criteria: Office of Management and Budget (OMB) A-87, *Cost Principles for State, Local and Indian Tribe Governments, Attachment B, Part 8, Compensation for Personal Services* states that salaries and wages should be supported either by periodic certification that the employee worked solely on a single program or by a personnel activity report if the employee worked on more than one Federal award or an indirect activity and a direct activity (which includes expenditures used to meet matching requirements).

Condition: Personnel costs allocated to a federal award grant program and included in administrative costs were not supported by personnel activity reports.

Questioned Costs: The total questioned costs in fiscal year 2014 were \$28,500.

Cause: As of the end of the fiscal year, the Town did not require employees working on a federal award program and other activities to prepare a personnel activity report supporting the employee's time spent working on activities associated with the grant program.

Effect: Noncompliance with grant requirements could result in the Town being required to repay funding if adequate support does not exist. Any repayment may also include penalties that may be applied by the grantor and could result in the discontinuance of further grant funding.

Recommendation: We recommend management obtain a thorough understanding of the grant requirements and work closely with the granting agency to avoid noncompliance. Additionally, management should implement the use of personnel activity reports for all employees who allocate a portion of their time worked to grant-funded activities.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS PROGRAMS (Continued)

B. Internal Control Over Compliance

Management Response: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to David Bacon there will be several additional review categories related to SAM, internal work logs, contract review process and others.

**2014-006 YEAR-END CLOSE OF FINANCIAL RECORDS AND ANNUAL FINANCIAL REPORTING –
Significant Deficiency
U.S. Department of Environmental Protection
CFDA No. 66.460 – Nonpoint Source Implementation Grant**

Criteria: As noted in Section II A – Internal Control Over Financial Reporting of the Schedule of Findings and Questioned Costs, Subpart C Section 320(b) of OMB Circular A-133 requires the Town to submit their audit report along with the completed and certified Data Collection Form to the Federal Audit Clearinghouse no later nine months after the Town’s fiscal year end for which the Federal Single Audit requirements were applicable, i.e., June 30th.

Condition: The Town was posting adjustments to the general ledger for the fiscal year ended September 30, 2014 as late as September 8, 2015. Additionally, the Town was not able to provide reconciliations and schedules necessary to provide for a proper year-end closing of the financial records in time to meet the June 30th reporting deadlines.

Refer to finding 2014-006 in Section II A of the Schedule of Findings and Questioned Costs for the full narrative and management’s response to this finding related to the major federal award program.

**2014-010 PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS –
*Significant Deficiency***

Criteria: Guidance in Office of Management and Budget (OMB) Circular A-133 provides that management is responsible for the preparation of an accurate and complete schedule of expenditures of federal awards (SEFA).

Condition: Management was not able to provide a complete and accurate schedule of expenditures of federal awards that was sufficient to determine the applicability of the Federal Single Audit rules until 9 months after yearend. Upon our testing of the schedule, multiple errors were detected related to the accuracy of reported expenditures. Additionally, the original schedule did not contain all of the data elements required by OMB Circular A-133.

Town of Melbourne Beach, Florida
Schedule of Findings and Questioned Costs (continued)
Fiscal Year ended September 30, 2014

SECTION III – FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS PROGRAMS (Continued)

B. Internal Control Over Compliance (Continued)

**2014-010 PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)**

Cause: The errors primarily pertained to the Town's understanding of the reporting of expenditures of federal awards under OMB Circular A-133. Town personnel assigned the responsibility of preparing the SEFA did not read the grant documents nor familiarize themselves with their responsibilities under OMB Circular A-133. Additionally, after the schedule was compiled, there was no evidence of an independent review of the schedule by someone other than the preparer with a sufficient understanding of the reporting requirements.

Effect: Failure to properly prepare the SEFA could affect the selection of major programs and therefore, impact the Town's compliance with OMB Circular A-133. Additionally, an adjusting journal entry of \$250,000 was necessary to record intergovernmental revenue due to the Town as of September 30, 2014.

Recommendation: We recommend the Town improve its year-end financial close process to more accurately and timely complete and reconcile the SEFA. This process should also include a procedure to have someone perform an independent review of the schedule; evidence of such review of the accuracy and completeness of the schedule should be properly documented.

Management Response: The Town has implemented a month-end and year-end closing procedure. The Town has budgeted and contracted to have an independent person review and initial monthly, quarterly and annual reports for auditable documentation.

SECTION IV – OTHER MATTERS

Refer to Schedule of Prior Year Findings and Questioned Costs.

**Town of Melbourne Beach, Florida
Summary Schedule of Prior Audit Findings
Fiscal Year ended September 30, 2014**

SECTION V – PRIOR FINANCIAL STATEMENT FINDINGS

A. Internal Control Over Financial Reporting

IC 2013-001 – Closed. The Town did not have any construction contracts open as of September 30, 2014; therefore, the accrual of any retainage payable was not applicable as of year-end. It should be noted, however, that the audit adjustment for fiscal year 2013 to record retainage payable was not posted into the Town’s general ledger, as noted in finding **IC 2014-001**.

SECTION VI – PRIOR FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Compliance

SA 2013-001 – Repeated and revised. As noted in **2014-009**, *Allowable Costs and Activities*, with regards to the Nonpoint Source Implementation Grants (CFDA No. 66.460), the Town does not prepare personnel activity reports in support of the labor costs used as matching expenditures for the federal award program. This finding was noted in the prior year related to the Hazard Mitigation Grant (CFDA No 97.039). In fiscal year 2014, there was an additional \$3,368 of payroll costs expended on the Hazard Mitigation Grant not supported by personnel activity reports.

B. Internal Control Over Compliance

None reported.

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TOWN OF MELBOURNE BEACH

BREVARD COUNTY'S OLDEST BEACH COMMUNITY • ESTABLISHED 1883

CORRECTIVE ACTION PLAN TOWN OF MELBOURNE BEACH, FLORIDA FISCAL YEAR ENDED SEPTEMBER 30, 2014

Our corrective action plan for the internal control comments, findings and questioned costs and management letter comments from the audit of the financial statements of the Town of Melbourne Beach, Florida as of and for the year ended September 30, 2014 is outlined below. Our responses are also included within the body of the report.

2014-001 FUND BALANCES

Recommendation: We recommend the Town review its year-end close procedures to ensure that review of all open construction contracts occurs and that retainage payable, when applicable, be recorded in the Town's general ledger. Additionally, we recommend the Town reconcile its general ledger to the audited financial statements promptly upon acceptance by the Town Commission to ensure that the internal financial records of the Town are in agreement with the audit report and to provide for accurate financial information in the current year.

Corrective Action Plan: The Town developed and implemented a year-end and month end closing procedure. The Year-End procedure will ensure review of open construction contracts, retainage payable, accruals, depreciation & amortization and asset acquisition in addition to additional categories.

2014-002 RECONCILIATION OF CASH ACCOUNTS

Recommendation: We recommend management implement procedures to provide reasonable assurance that all bank accounts are reconciled to the Town's general ledger on a monthly basis. Additionally, a person independent from the preparer should review the bank reconciliation for accuracy and initial as auditable documentation of his/her review.

Corrective Action Plan: The Town has budgeted and contracted an independent person to review and initial the bank statements and additional documents as auditable documents.

2014-003 RECEIVABLES AND AMOUNTS DUE FROM OTHER GOVERNMENTS

Recommendation: We recommend the Town implement procedures to ensure that receivables are recorded and revenue recognized pursuant to generally accepted accounting standards.

Corrective Action Plan: The Town has budgeted and contracted an independent person to view and initial monthly receivables as auditable documentation. Daily processes were previously established to ensure receivables were recorded and revenues recognized on a daily and weekly basis.

2014-004 ACCOUNTS PAYABLE

Recommendation: We recommend the Town implement procedures to provide reasonable assurance that all amounts due to vendors are properly accrued in the correct accounting period.

Corrective Action Plan: Procedures have been implemented to ensure all accruals are completed timely and correctly. The Town has budgeted and contracted an independent person to review and initial monthly receivables as auditable documentation.

2014-005 FINANCIAL REPORTING TO MANAGEMENT

Recommendation: In addition to management's review of budget to actual financial reports, we recommend management develop and implement procedures to perform periodic year-over-year fluctuation analysis of account balances to include 'balance sheet' accounts as well as revenues and expenditures. We recommend that someone independent from the preparer review schedules to ensure that schedules are mathematically accurate and are in agreement with underlying documentation and with the Town's accounting records. The reviewer should initial the schedule or create a log of review activity as documentation of completion of his/her review. We also recommend that formulas be used in Excel schedules for sums/totals rather than having amounts hard-coded into the worksheet to improve mathematical accuracy and to allow for ease of editing.

Corrective Action Plan: New Excel spread sheets have been developed for the FY15 reporting period. We will implement periodic year-over-year reviews, to include the balance sheet as well as revenue and expenditures and log reviews accordingly.

2014-006 YEAR-END CLOSE OF FINANCIAL RECORDS AND ANNUAL FINANCIAL REPORTING

Recommendation: We recommend management implement procedures to provide reasonable assurance that the fiscal year-end accruals and journal entries are posted timely and that fiscal year financial records are closed in sufficient time to allow for completion of the audit of the financial statements and for preparation of the annual financial report. This can be done through routine reconciliation of key accounts throughout the fiscal year and the use of a checklist to assist Town personnel on identifying and completing processes that are only performed on an annual basis.

Corrective Action Plan: The Town has developed and implemented a month-end and year-end closing procedures to ensure the ability to have timely reconciliation of the records and completion of the Town's annual financial audit.

2014-007 DAVIS-BACON ACT

U.S. Department of Environmental Protection

CFDA No. 66.460 – Nonpoint Source Implementation Grant

Recommendation: We recommend the Town review any on-going construction contracts being funded with federal award programs for which the Federal Davis-Bacon Act applies and amend any open contracts to include the prevailing wage clauses. Further, the Town should assign personnel to be responsible for collecting and monitoring the weekly certified payroll reports for these construction contracts. For new projects, the Town should assign a person to be responsible for ensuring the Town's compliance with the provisions of the Federal Davis-Bacon Act.

Corrective Action Plan: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to Davis-Bacon there will be several additional review categories relating to SAM, internal work logs, contract review the bid process and others.

2014-008 PROCUREMENT – SYSTEM FOR AWARD MANAGEMENT (“SAM”)

U.S. Department of Environmental Protection

CFDA No. 66.460 – Nonpoint Source Implementation Grant

Recommendation: We recommend the Town perform a SAM verification for all vendors (entities) receiving payment of \$25,000 or more from federal award program funds. This verification should be documented by notation in the vendor file to include the date the verification was performed and the signature of the person performing the verification.

Corrective Action Plan: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to Davis-Bacon there will be several additional review categories relating to SAM, internal work logs, contract review the bid process and others.

2014-009 ALLOWABLE COSTS AND ACTIVITIES

U.S. Department of Environmental Protection

CFDA No. 66.460 – Nonpoint Source Implementation Grant

Recommendation: We recommend management obtain a thorough understanding of the grant requirements and work closely with the granting agency to avoid noncompliance. Additionally, management should implement the use of personnel activity reports for all employees who allocate a portion of their time worked to grant-funded activities.

Corrective Action Plan: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses and the collection and monitoring of weekly certified payroll reports. In addition to Davis-Bacon there will be several additional review categories relating to SAM, internal work logs, contract review , the bid process and others.

2014-010 PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Recommendation: We recommend the Town improve its year-end financial close process to more accurately and timely complete and reconcile the SEFA. This process should also include a procedure to have someone perform an independent review of the schedule; evidence of such review of the accuracy and completeness of the schedule should be properly documented.

Corrective Action Plan: The Town has implemented a month-end and year-end closing procedure. The Town has budgeted and contracted to have an independent person review and initial monthly, quarterly and annual reports for auditable documentation.

Town of Melbourne Beach, Florida
Schedule of Expenditures of Federal Awards
Fiscal Year ended September 30, 2014

Federal Agency/ Pass-through Grantor/ Program Title	Grant or Contract Number	CFDA Number	Total Federal Expenditures	Transfers to Sub- recipients
Federal Programs:				
U.S. Department of Justice				
Indirect Program:				
Passed through Florida Department of Law Enforcement				
Edward Byrne Memorial Justice Assistance Grant Program	2014-JAGC-BREV-2-E6-051	16.738	\$ 1,000	-
Subtotal - U.S. Department of Justice			\$ 1,000	-
U.S. Department of Homeland Security				
Indirect Program:				
Passed through Florida Division of Emergency Management				
Hazard Mitigation Grant	HGMP DR-1545-131-R	97.039	\$ 237,013	-
Subtotal - U.S. Department of Homeland Security			\$ 237,013	-
U.S. Department of Environmental Protection				
Indirect Program:				
Passed through Florida Department of Environmental Protection				
Nonpoint Source Implementation Grant	G320	66.460	\$ 250,000	\$ -
Nonpoint Source Implementation Grant	G346	66.460	114,000	-
Subtotal - U.S. Department of Environmental Protection			364,000	-
Total Expenditures of Federal Awards			\$ 602,013	\$ -

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Presentation

The schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town under programs of the federal government for the year ended September 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

There were no subrecipients in fiscal year 2014.

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INDEPENDENT AUDITORS’ MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the Town of Melbourne Beach (the “Town”) as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated November 12, 2015.

Auditors’ Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Other Reports and Schedule

We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditors’ Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 12, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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:

Findings and Questioned Costs Comments

IC 2013-001	Retainage Payable	Closed
SA 2013-001	Allowable Costs by Activities	Repeated and Revised

Management Letter Comments

IC 2010-002	Travel Expenditures	Cleared
ML 2013-001	Capital Assets	Cleared

Official Title and Legal Authority

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

Financial Condition

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

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

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Town of Melbourne Beach for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit of the Town, we conducted a limited IT risk assessment by applying both a data security and business view of IT risk. We noted some areas where controls over the IT department could be improved. The subject matter of some of the areas of risk identified are confidential in nature, and thus specific details of these risks are disclosed in a separate report in order to avoid the possibility of compromising City information and security. This separate report is exempt from public access provided by Florida Statutes 119.07(1) and 286.001 and other laws and rules requiring public access or disclosure. This exemption is addressed under Florida Statute 281.301, Security systems; records and meetings exempt from public access or disclosure.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we noted four such findings, 2014-007, 2014-008, 2014-009 and SA 2013-001.

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:

ML 2014-001 SEGREGATION OF DUTIES

Criteria: Management does not have a procedure in place to ensure payroll increases are input into Fund Balance in accordance with approved pay increases.

Condition: Pay rate increases input into Fund Balance should be reviewed by an employee independent of the person who input the pay increases.

Cause: During our testing, we identified that the Finance Manager processes payroll, performs the bank reconciliations and makes pay increase changes within the Fund Balance system based on pre-approved pay increases however no independent subsequent review is performed to ensure that the Fund Balance system matches the approved pay increases.

Effect: Unauthorized payroll increases may occur.

Recommendation: The Town should have a process in place to improve the segregation of duties within the payroll function. We recommend that the employee who inputs the pay increase is independent from the person who reviews that the pay increases were inputted into Fund Balance in accordance with the approved pay rate increases.

Management's Response: A policy and procedure will be implemented designating the Town Manager, the Finance Manager and Administrative Clerk as financial reviewers of payroll input.

ML 2014-002 EXPENDITURES IN EXCESS OF APPROPRIATIONS

Criteria: The Town of Melbourne Beach legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is defined by the Town of Melbourne Beach's Charter as being at the department level. The Town of Melbourne Beach Council is required to approval all adjustments to the budget at or above the department level. The Town Manager is authorized to make budget line item adjustments, so long as total appropriations for the department are not changed.

Condition: During the audit, we noted expenditures exceeded appropriates for general governmental services in the general fund by \$18,620, for public safety in the general fund by \$9,578 and for physical environment in the general fund by \$1,442.

Cause: Review of budget to actual expenditures was not sufficient to identify that expenditures exceeded appropriations.

Effect: The Town was out of compliance with its Charter and with Florida Statues.

Recommendation: We recommend the Town implement procedures to ensure that all cash and accrual transactions are entered into the general ledger on a timely basis in order to provide for internal financial reports that can be reviewed for actual results in comparison to budgeted

appropriations. This will help ensure compliance with the Town's Charter and with Florida Statutes.

Management Response: A month-end and year-end procedure has been implemented to ensure the timely input of all financial transactions to ensure complete and accurate budgeted appropriations.

ML 2014-003 DOCUMENTATION TO TEST BIDDING PROCEDURES

Criteria: The Town of Melbourne Beach is required first to follow local law, then Florida Statutes (S. 287.057 F.S.) for bidding procedures. Additionally, the Town's policy regarding bid procedures does not clearly define what products and services require bidding procedures.

Condition: During the audit, we were unable to determine if bidding procedures were properly followed due to the lack of documentation showing that the bid was advertised, a bond bid was acquired by the bidder, a bid tabulation occurred, and that the bid was awarded to the lowest bidder. Additionally, management indicated that certain services which were purchased for greater than the bid threshold did not require the Town to go through the bid procedures; however, it was not clearly outlined within the Town's policy.

Cause: The Town was unable to provide documentation, and therefore verification of the bid process in accordance with the Town and State policy could not be conclusively determined. Additionally, the Town's policy does not properly outline the products and services that require bidding procedures.

Effect: It was unclear whether the Town was out of compliance with its Policy and with Florida Statutes. Additionally, the Town's employees may not be properly bidding out products and services due to the lack of a clear policy.

Recommendation: We recommend the Town properly document all steps in the bid process including the products and services that are required to follow the bidding process.

Management's Response: The Town will develop and implement a policy for on-going construction contracts. The policy will address the Davis-Bacon Act, prevailing wage clauses, the collection and monitoring of weekly certified payroll reports, categories relating to SAM, internal work logs, contact review the bid process.

ML 2014-004 REPAIR AND MAINTENANCE EXPENDITURES

Criteria: The capitalization policy for the Town is for capital purchases of \$1,000 or more with an estimated useful life of greater than one year.

Condition: During the audit, we noted an expenditure for an air conditioning system repair was treated as a capital outlay rather than as a repair and maintenance expenditure. The repair did not extend the useful life of the system beyond one year.

Cause: The Town incorrectly classified a repair and maintenance cost as a capital item. As this cost did not extend the useful life of the air conditioning system, the costs should have been expended rather than being treated as capital outlay.

Effect: Capital outlay was overstated and repair and maintenance was understated by \$1,912.

Recommendation: We recommend the Town review repair and maintenance costs closely to determine whether the transactions extend the useful life of the asset beyond one year or if they should be expensed, in compliance with the Town's capitalization policy.

Management's Response: The Finance Manager has reviewed the Town's policy regarding capital outlay and shared the policy with Town employees to ensure awareness as to what constitutes a capital asset. The Finance Manager will take care to review all journal entries for misclassifications.

Purpose of this Letter

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

Carly Riggs & Ingram, L.L.C.

Melbourne, Florida
November 12, 2015

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES

The Board of Directors
Town of Melbourne Beach,

We have examined the Town of Melbourne Beach's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2014. Management is responsible for the Town of Melbourne Beach's compliance with those requirements. Our responsibility is to express an opinion on the Town of Melbourne Beach's compliance based on our examination.

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

In our opinion, the Town of Melbourne Beach complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Melbourne, Florida
November 12, 2015