



## **Town of Melbourne Beach, Florida**

### **AUDITED FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2015**



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**Town of Melbourne Beach, Florida  
Town Commission Members and Officials  
Year Ended September 30, 2015**

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, 2015, 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, 2015, 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.

## ***Change in Accounting Principle***

As discussed in Note I.D.12 to the financial statements, the Town implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions: An Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

## ***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 63 through 73) 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 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 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 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 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 October 10, 2016 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.

*Caru, Riggs & Ingram, L.L.C.*

Melbourne, Florida  
October 10, 2016



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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, 2015.

### Financial Highlights

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2015 fiscal year by \$6,237,209 (net position). Of this amount, \$5,357,497 is net investment in capital assets while restricted net position is \$1,236,201.
- The total net position increased \$151,231, an increase of about 2.2% from previous year, excluding the effects of the implementation of GASB Statement numbers 68 and 72, which resulted in a net unrestricted deficit of \$(356,489).
- As of the close of fiscal year 2015, the Town's governmental funds reported combined ending fund balances of \$3,142,102, an increase of \$14,097 in comparison with the prior year. While \$1,523,051 represents the portion restricted by outside parties and \$32,000 is assigned for capital improvements, \$1,518,092 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$68,959 of governmental fund balance is non-spendable for current obligations.
- At the end of the 2015 fiscal year, unassigned fund balance for the general fund was \$1,518,092 or 72.2 % of total general fund expenditures.
- The Town's total long term liabilities decreased by \$238,164 during the 2015 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.

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

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The governmental activities of the Town include general government, public safety, physical environment, and recreation. The government-wide financial statements can be found on pages 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 10 individual governmental funds, including the General Fund, Capital Projects Fund, Debt Service Fund and seven non-major funds. The non-major funds are the Police Education, Building Education, Building Department, Old Town Hall, Stormwater Utility, Law Enforcement Forfeiture 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 non-major 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 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 – 60 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 for the General Fund. Required supplementary information can be found on pages 63 – 73 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 76 – 79 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 \$6,237,209 at the close of the 2015 fiscal year. By far the largest portion of the Town's net position (85.9 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.

Of the remaining net position, \$1,236,201 represents resources that are subject to external restrictions on how they may be used. These restrictions relate primarily to externally imposed parameters on spending for the \$3.5 million note. The remaining balance of the net position which represents amounts available to meet the Town's ongoing obligations to citizens and creditors at the discretion of the Commission is a deficit of \$356,489. In the 2015 fiscal year, opening net position was restated – reduced by \$868,369 – to account for the implementation of GASB

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

Statement No. 68, which requires the Town to record its net pension liability on the government-wide statements.

### Town's Net Position

	Governmental activities	
	2015	2014
<b>Assets:</b>		
Current and other assets	\$ 3,437,842	\$ 3,339,155
Capital assets, net	8,357,163	8,461,917
<b>Total assets</b>	<b>11,795,005</b>	<b>11,801,072</b>
Deferred outflows of resources	269,903	-
<b>Liabilities:</b>		
Current liabilities	204,128	142,840
Noncurrent liabilities	5,562,717	4,661,242
<b>Total liabilities</b>	<b>5,766,845</b>	<b>4,804,082</b>
Deferred inflows of resources	60,854	12,643
<b>Net Position:</b>		
Invested in capital assets	5,357,497	5,139,781
Restricted	1,236,201	1,450,161
Unrestricted	(356,489)	394,405
<b>Total net position</b>	<b>\$ 6,237,209</b>	<b>\$ 6,984,347</b>

### Town's Changes in Net Position

	Governmental activities	
	2015	2014
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for services	\$ 174,577	\$ 131,751
Operating grants and contributions	17,500	84,249
Capital grants and contributions	58,750	759,297
<b>General revenues:</b>		
Property taxes	1,538,077	1,454,407
Other taxes	794,048	793,270
Shared revenues	250,274	192,375
Unrestricted investment earnings	1,119	903
Other	7,357	9,553
<b>Total revenues</b>	<b>2,841,702</b>	<b>3,425,805</b>
<b>Expenses:</b>		
General government	790,640	859,982
Public safety	1,257,327	1,205,796
Recreation	80,972	64,407
Physical environment	354,539	375,481
Interest on long-term debt	206,993	221,999
<b>Total expenses</b>	<b>2,690,471</b>	<b>2,727,665</b>
<b>Increase in net position</b>	<b>151,231</b>	<b>698,140</b>
Net position - beginning of year	6,984,347	6,286,207
Prior period adjustment (See Note 1.D.12)	(898,369)	-
<b>Net position - beginning of year as restated</b>	<b>6,085,978</b>	<b>6,286,207</b>
<b>Net position - end of year</b>	<b>\$ 6,237,209</b>	<b>\$ 6,984,347</b>

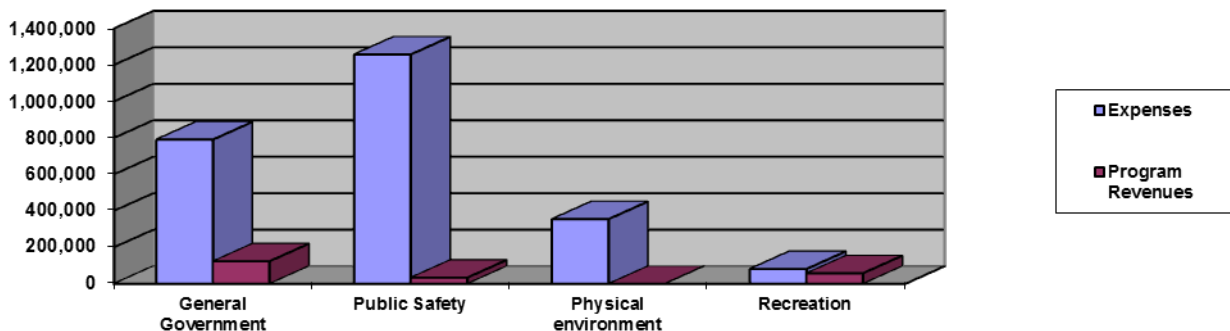
## Town of Melbourne Beach, Florida Management's Discussion and Analysis

### Governmental activities

Governmental activities increased the Town's net position by \$151,231. This amount is primarily attributable to increases in general revenues including property taxes, other taxes, recreation and other revenues. These revenue increases are offset by a decrease in unrestricted investment earnings and an increase in expenses for public safety and a decrease in general government and interest. Governmental activities increased the Town's assets by \$698,140 in the prior year. Key elements of the difference between the two years change in assets, \$546,909 are as follows:

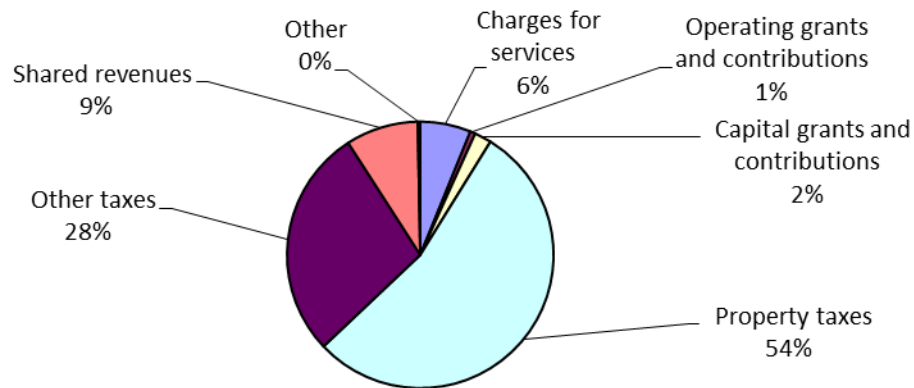
- The Town's total revenues related to governmental activities decreased by approximately \$584,103 from the prior year. Factors that contributed to a decrease in revenues are a \$700,547 decrease in capital grants and contributions due to the completion of FEMA and Department of Environmental Protection-funded projects in the prior year, while only receiving a small Stormwater grant for \$57,750 from St. Johns River Water Management District and a \$1,000 grant from Florida Department of Law Enforcement during fiscal year 2015. This was offset by an increase in property taxes of \$83,670, an increase in shared revenues of \$57,899 and increase in charges for services of \$42,826.
- Expenses related to governmental activities decreased by \$37,194 from the prior year. This is related to a decrease in general government of \$69,342, a decrease in physical environment of \$20,942 and a decrease in the interest on long term debt of \$15,006. These are offset by an increase in public safety of \$51,531, a large portion of which was for the purchase of a new Police vehicle and new protective gear for the Police and Fire Departments. The tennis court resurfacing and improvement is largely responsible for the increase in the recreation expense of \$16,565; however, a large portion of the expense of the resurfacing project was offset by the fundraising efforts of the Melbourne Beach Tennis Association.

### 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 2015, the Town's governmental funds reported combined ending fund balances of \$3,142,102, an increase of \$14,097 in comparison with the prior year. As of the end of fiscal year 2015, \$68,959 of the fund balance is designated as non-spendable to indicate that it is not available for new spending because it has already been committed. A portion of the fund balances is restricted in use by outside parties for the following: 1) \$36,428 for debt purposes; 2) \$5,515 for historic preservation; 3) \$1,236,201 for stormwater construction; 4) \$199,237 for stormwater utility; 5) \$16,788 for education; 6) \$1,429 for law enforcement; and 7) \$12,490 building department operations. Additionally, \$32,000 has been earmarked – or "assigned" – by the Commission for capital improvements. The remaining amount, \$1,518,092, 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 2015 fiscal year, unassigned fund balance of the general fund was \$1,518,092 while total general fund balance was \$1,587,051. 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 72.2 percent of total general fund expenditures, while total fund balance represents 75.5 percent of that same amount. The fund balance of the General Fund increased by \$129,404 during the fiscal year. An excess of revenues over expenditures of \$256,866 was offset by \$128,425 of transfers to the debt service fund for debt payments, transfers of \$32,000 to the capital projects fund and transfers of \$13,473 to the building department fund.

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

The Capital Projects Fund has a fund balance of \$1,273,716. The net decrease in fund balance during the current year in the capital projects fund was \$183,649. The decrease was related to the timing of grant revenue and expenses related to Stormwater projects recognized in multiple years.

The Debt Service Fund has a fund balance of \$36,428. The net increase during the current year in the debt service fund was \$28,386. The increase was related to current period tax revenues collected in excess of anticipated amounts, resulting in a budgeted transfer amount greater than what was needed to cover current debt service payments.

The aggregate remaining Nonmajor Funds have a fund balance of \$244,907 at the end of the year. The net increase in the funds of \$39,956 is attributable in part to current period revenues collected for taxes in the Stormwater Utility fund and for permits in the Building Department fund in excess of current year spending.

### 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, 2015, amounts to \$8,357,163 (net of accumulated depreciation). This represents a net decrease of \$104,754 or a 1.2% percent decrease from the previous year. The current year additions include \$205,126 of construction in progress, \$15,667 of improvements other than buildings and \$83,652 of equipment. The Town had one stormwater construction project underway during 2015 and the completed project will be capitalized as infrastructure in the next fiscal year. These additions were offset by current year depreciation expense which totaled \$409,199.

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

	2015	2014
Land	\$ 897,742	\$ 897,742
Buildings	1,661,418	1,731,528
Improvements other than buildings	417,938	459,153
Equipment	443,058	477,827
Infrastructure	4,731,881	4,895,667
Construction in progress	205,126	-
Total	\$ 8,357,163	\$ 8,461,917

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 2015 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$4,003,000. Of this debt, \$2,688,000 is secured by a separate ad valorem millage. The remainder of the outstanding debt of \$1,315,000, not including capital leases, is secured by specified revenue sources (i.e., non-ad valorem revenues).

### Town's Long-term Liabilities

	2015	2014
Revenue bonds payable	\$ 1,315,000	\$ 1,375,000
Bond premium	26,923	30,158
Note payable	2,688,000	2,841,000
Capital leases	295,223	339,077
Net OPEB Obligation	3,000	3,000
Compensated absences	157,826	135,901
Total	\$ 4,485,972	\$ 4,724,136

The Town's long-term liabilities decreased by \$238,164 during the current fiscal year. This decrease was attributable to repayment of bonds, notes and capital leases in the amount of \$287,644. This decrease also reflects an offsetting increase in the liability for compensated absences of \$21,925 and for new capital leases of \$30,790.

Additional information on the Town's long-term liabilities can be found in Notes 3.F. and 3.G. on pages 43 – 45 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 2016. The millage rate for Fiscal Year 2015 was 4.1105. The taxable value of real property increased by 7% percent for Fiscal Year 2015 and is expected to increase in Fiscal Year 2016.

### **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 due to salary and insurance increases and increases to the general operating expenses of the Town. Capital outlay expenditures are expected to increase due to the purchase of additional Police and Fire Department vehicles and a "gator" utility vehicle for the Public Works Department, repairs and improvements to Town Hall for the replacement of the HVAC system and upgrades to the existing computer system. Additional repairs and improvements are anticipated for Town facilities to include removal and replacement of the Ocean Park Pavilion, repairs to facilities in Ryckman Park and the 5<sup>th</sup> Avenue Park. Possible increases and additions to charges for services will provide an increase in revenues for fiscal year 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 Director, 507 Ocean Avenue, Melbourne Beach, Florida 32951.

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**TOWN OF MELBOURNE BEACH, FLORIDA**

Basic Financial Statements

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**Town of Melbourne Beach, Florida**  
**Statement of Net Position – Governmental Activities**

<i>September 30,</i>	<b>2015</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,126,654
Receivables	148,955
Due from other governments	93,274
Prepaid items	68,959
Capital assets not be depreciated:	
Land	897,742
Construction in progress	205,126
Capital assets (net of accumulated depreciation):	
Buildings	1,661,418
Improvements other than buildings	417,938
Machinery and equipment	443,058
Infrastructure	4,731,881
Total assets	<b>11,795,005</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount on advance refunding	56,082
Deferred outflows related to pensions	213,821
Total deferred outflows of resources	<b>269,903</b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	142,944
Accrued interest payable	55,071
Deposits	6,113
Noncurrent liabilities:	
Due within one year:	
Revenue bonds payable	60,000
Note payable	160,000
Capital leases	49,519
Compensated absences	78,913
Due in more than one year:	
Revenue bonds payable	1,281,923
Note payable	2,528,000
Capital leases	245,704
Net OPEB obligation	3,000
Net pension liability	1,076,745
Compensated absences	78,913
Total liabilities	<b>5,766,845</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	49,500
Deferred revenue - business tax receipts	11,354
Total deferred inflows of resources	<b>60,854</b>
<b>NET POSITION</b>	
Net investment in capital assets	5,357,497
Restricted for:	
Community development projects	1,236,201
Unrestricted	(356,489)
Total net position	<b>\$ 6,237,209</b>

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, 2015*

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities:			
General government	\$ 790,640	\$ 123,080	\$ 111
Public safety	1,257,327	27,432	5,284
Recreation	80,972	24,065	12,105
Physical environment	354,539	-	-
Interest on long-term debt	206,993	-	-
Total governmental activities	\$ 2,690,471	\$ 174,577	\$ 17,500

**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

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**Total general revenues**

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**Change in net position**

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**Net position, beginning**

**Prior period adjustment (see Note 1.D.12)**

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**Net position, beginning of year as restated**

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**Net position, ending**

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

<b>Program Revenues</b>		
<b>Capital Grants and Contributions</b>		<b>Net (Expense) Revenues and Change in Net Position</b>
\$ -	\$	(667,449)
1,000		(1,223,611)
-		(44,802)
57,750		(296,789)
-		(206,993)
<b>\$ 58,750</b>		<b>(2,439,644)</b>
		<b>1,538,077</b>
		<b>557,475</b>
		<b>236,573</b>
		<b>250,274</b>
		<b>1,119</b>
		<b>250</b>
		<b>7,107</b>
		<b>2,590,875</b>
		<b>151,231</b>
		<b>6,984,347</b>
		<b>(898,369)</b>
		<b>6,085,978</b>
	<b>\$</b>	<b>6,237,209</b>

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



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

<i>September 30, 2015</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$1,478,695	\$1,362,996	\$ 36,428	\$ 248,535	\$ 3,126,654
Accounts receivable, net	148,955	-	-	-	148,955
Due from other governments	35,524	57,750	-	-	93,274
Prepaid items	68,959	-	-	-	68,959
<b>Total assets</b>	<b>\$1,732,133</b>	<b>\$1,420,746</b>	<b>\$ 36,428</b>	<b>\$ 248,535</b>	<b>\$ 3,437,842</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 18,960	\$ 89,280	\$ -	\$ 100	\$ 108,340
Accrued payroll and related liabilities	31,076	-	-	3,528	34,604
Deposits	6,113	-	-	-	6,113
Unearned revenue	77,579	57,750	-	-	135,329
<b>Total liabilities</b>	<b>133,728</b>	<b>147,030</b>	<b>-</b>	<b>3,628</b>	<b>284,386</b>
Deferred inflows of resources					
Deferred revenue - business tax receipts	11,354	-	-	-	11,354
<b>Total deferred inflows of resources</b>	<b>11,354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,354</b>

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

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

<i>September 30, 2015</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Total Governmental Funds
Fund balance					
Nonspendable:					
Prepaid items	68,959	-	-	-	68,959
Restricted for:					
Debt service	-	-	36,428	-	36,428
Historic preservation	-	5,515	-	-	5,515
Stormwater construction	-	1,236,201	-	-	1,236,201
Law enforcement	-	-	-	1,429	1,429
Law enforcement education	-	-	-	15,851	15,851
Building department education	-	-	-	937	937
Building department operations	-	-	-	12,490	12,490
Old Town Hall	-	-	-	14,963	14,963
Stormwater utility	-	-	-	199,237	199,237
Assigned for capital improvements	-	32,000	-	-	32,000
Unassigned	1,518,092	-	-	-	1,518,092
Total fund balances	1,587,051	1,273,716	36,428	244,907	3,142,102
Total liabilities and fund balances	\$1,732,133	\$1,420,746	\$ 36,428	\$ 248,535	

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,357,163
Unearned (related to reimbursement for lease) recorded in the funds has been reversed and recorded as revenue in governmental activities.	77,579
Unavailable revenue (related to reimbursement for grant costs) recorded in the funds has been reversed and recorded as revenue in governmental activities.	57,750
Deferred outflows and deferred inflows related to pension costs and earnings are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.	164,321
Long-term liabilities, including bonds payable, accrued interest payable, compensated absences, the net pension liability and the net OPEB obligation are not due and payable in the current period and therefore are not reported in the funds.	(5,561,706)
Net position of governmental activities	\$ 6,237,209

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

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

<i>Year ended September 30, 2015</i>	General	Capital Projects	Debt Service	Nonmajor Funds	Governmental Funds	Total Funds
<b>Revenues</b>						
Taxes	\$ 1,992,288	\$ -	\$ 301,560	\$ 54,496	\$ -	\$ 2,348,344
Licenses and permits	14,428	-	-	99,988	-	114,416
Intergovernmental	251,274	-	-	-	-	251,274
Charges for services	17,570	-	-	-	-	17,570
Fines and forfeitures	12,492	-	-	658	-	13,150
Interest	1,119	-	-	-	-	1,119
Miscellaneous	70,594	36	-	3,740	-	74,370
<b>Total revenues</b>	<b>2,359,765</b>	<b>36</b>	<b>301,560</b>	<b>158,882</b>	<b>-</b>	<b>2,820,243</b>
<b>Expenditures</b>						
Current:						
General government	613,091	-	-	-	-	613,091
Public safety	1,040,502	-	-	86,142	-	1,126,644
Recreation	6,440	-	-	260	-	6,700
Physical environment	250,205	10,559	-	30,601	-	291,365
Capital outlay	99,319	205,126	-	-	-	304,445
Debt service:						
Principal	74,645	-	213,000	-	-	287,645
Interest	18,697	-	188,599	-	-	207,296
<b>Total expenditures</b>	<b>2,102,899</b>	<b>215,685</b>	<b>401,599</b>	<b>117,003</b>	<b>-</b>	<b>2,837,186</b>
Excess (deficiency) of revenues over (under) expenditures	256,866	(215,649)	(100,039)	41,879	-	(16,943)
<b>Other financing sources (uses)</b>						
Transfers in	15,396	32,000	128,425	13,473	-	189,294
Transfers out	(173,898)	-	-	(15,396)	-	(189,294)
Capital lease proceeds	30,790	-	-	-	-	30,790
Proceeds from sale of capital assets	250	-	-	-	-	250
<b>Net other financing sources (uses)</b>	<b>(127,462)</b>	<b>32,000</b>	<b>128,425</b>	<b>(1,923)</b>	<b>-</b>	<b>31,040</b>
<b>Net change in fund balances</b>	<b>129,404</b>	<b>(183,649)</b>	<b>28,386</b>	<b>39,956</b>	<b>-</b>	<b>14,097</b>
Fund balances, beginning	1,457,647	1,457,365	8,042	204,951	-	3,128,005
<b>Fund balances, ending</b>	<b>\$ 1,587,051</b>	<b>\$ 1,273,716</b>	<b>\$ 36,428</b>	<b>\$ 244,907</b>	<b>\$ -</b>	<b>\$ 3,142,102</b>

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

**Town of Melbourne Beach, Florida**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

<i>Year ended September 30,</i>	<b>2015</b>
Net change in fund balances - total governmental funds	<b>\$ 14,097</b>
<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 depreciation expense exceeds capital outlays in the current period.</p>	<b>(104,754)</b>
<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>	<b>253,278</b>
<p>Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, pension expenses and net pension liabilities are reported regardless of when the financial resources are available.</p>	<b>(224,439)</b>
<p>Deferred outflows and deferred inflows of resources related to pension costs are not recognized in the governmental funds; however, they are recorded in the statement of net position under full accrual accounting.</p>	<b>210,385</b>
<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>	<b>(35,727)</b>
<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>	<b>57,750</b>
<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>	<b>2,566</b>
<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>	<b>(21,925)</b>
Change in net position of governmental activities	<b>\$ 151,231</b>

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

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

*September 30,* **2015**

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**ASSETS**

Cash and cash equivalents	\$ 57,617
Investments at fair value:	
Equity investments	1,667,339
Mutual funds	854,962
Accounts receivable	863
<b>Total assets</b>	<b>2,580,781</b>

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**LIABILITIES**

**10,239**

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**NET POSITION**

Held in trust for pension benefits	\$ 2,570,542
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The accompanying notes are an integral part of this financial statement.

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

<i>Year ended September 30,</i>	<b>2015</b>
<b>ADDITIONS</b>	
Contributions:	
Town	\$ 222,353
Employee	22,464
Total contributions	<u>244,817</u>
Investment income:	
Net appreciation (depreciation) in the fair value of investments	(63,368)
Interest and dividends	62,150
Net investment income (loss)	<u>(1,218)</u>
<b>Total additions</b>	<b><u>243,599</u></b>
<b>DEDUCTIONS</b>	
Benefit payments	250,964
Administrative expenses	45,512
Total deductions	<u>296,476</u>
<b>Change in net position</b>	<b>(52,877)</b>
<b>Net position held in trust for pension benefits, beginning of year</b>	<b><u>2,623,419</u></b>
<b>Net position held in trust for pension benefits, end of year</b>	<b><u>\$ 2,570,542</u></b>

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

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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.



## 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)

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 revenue bonds and the note payable.

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, building department operations, maintenance of town hall and stormwater utility taxes.

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

## 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)

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 ("Florida PRIME"). The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a7-like fund. The Town's investment in Florida PRIME is at amortized cost. The fair value of the Town's position in the pool is equal to the value of pooled shares.

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

**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)**

- 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. Banks in which the Town's funds are deposited must be classified as qualified public depository as defined in the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes, before any deposits are made with those institutions. 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 \$4.1105 for 2015. The Town also levied taxes per \$1,000 of assessed value for the following: \$0.9999 for stormwater voted debt service. Taxes based on the January 1 assessment value are due in November with discounts of one percent (1%) per month if paid before March, and become delinquent on April 1 with a penalty of three percent (3%) for real estate and one and one-half percent (1.5%) for business personal property. There is a public auction on the Brevard County Courthouse steps on or about June 1 to sell the tax certificates for unpaid property taxes. Brevard County acts as an agent for the Town in the collection of these taxes.

**3. Prepaid items**

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

**4. Capital assets**

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

**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)**

Capital assets are defined by the government as assets with an initial, individual cost of \$500 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. Deferred outflows of resources**

The financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred amount for advance refunding of debt in the governmental activities, which is a result of the difference in the carrying value of refunded debt and its reacquisition price, is reported as a deferred outflow of resources in the amount of \$56,082 at September 30, 2015 and will be amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Total deferred outflows of resources related to pensions were \$213,821 for the year ended September 30, 2015.

**6. 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.

**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)**

**7. 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 \$135,329 consist of funds related to the reimbursement of a fire truck lease and grant proceeds not collected within the measurement period.

**8. Deferred inflows of resources**

The financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Town records its deferred business tax receipts in this category. This is a result of tax receipts received in advance of the associated tax year for which the receipts apply. This amount of \$11,354 at September 30, 2015 is deferred and recognized in the period it becomes available.

The deferred inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Total deferred inflows of resources related to pensions were \$49,500 for the year ended September 30, 2015.

**9. 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.

**10. 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:

**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)**

**10. Fund equity (continued)**

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

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

Committed Fund Balance - Amounts that have self-imposed limitations established through actions of the Town Commission (the Town's highest level of decision making authority) set in place prior to the end of a financial reporting period. These amounts cannot be used for any other purpose unless the Town Commission takes action to remove or change the limitation. The Town has no committed fund balances at September 30, 2015.

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 \$32,000 in assigned fund balance at September 30, 2015 for capital improvements.

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.

**11. 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.

**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)**

**12. Accounting Changes**

The Town has implemented GASB Statement No. 68, *Accounting and Financial Reports for Pensions*, which amends or supersedes the Accounting for Pensions by State and Local Government Employers. The statement requires the government to record either a net pension liability or a net pension asset for defined benefit pension plans and deferred outflows and inflows of resources, if applicable. It also requires additional disclosures in the notes to the financial statements and requires supplementary information.

Implementation of the new standard required the restatement of the September 30, 2014 net position in governmental activities as detailed in the table below. This change is in accordance with generally accepted accounting principles.

	Governmental Activities
Net position, September 30, 2014 as previously reported	\$ 6,984,347
Cumulative effect of application of GASB 68:	
Florida Retirement System Adjustment	(82,340)
Health Insurance Subsidy Adjustment	(77,557)
Police Pension Trust Adjustment	(738,472)
Net position, September 30, 2014 as restated	\$ 6,085,978

**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 \$(5,561,706) difference are as follows:

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

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

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

Bonds payable	\$	(1,315,000)
Plus: issuance premium (to be amortized over life of debt)		(26,923)
Less: deferred refunding loss (to be amortized over life of debt)		56,082
Accrued interest payable		(55,071)
Note payable		(2,688,000)
Capital lease		(295,223)
Net OPEB obligation		(3,000)
Net pension liability		(1,076,745)
Compensated absences		(157,826)
<hr/>		
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	(5,561,706)
<hr/>		

**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 \$(104,754) difference are as follows:

Capital outlay	\$	304,445
Depreciation expense		(409,199)
<hr/>		
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	\$	(104,754)
<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 \$253,278 difference are as follows:



**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 (continued)**

Debt issued or incurred:	
Capital lease	\$ (30,790)
Principal repayments:	
Capital leases	74,644
Revenue bonds	60,000
Note payable	153,000
Amortization of bond premium	3,235
Amortization of deferred refunding loss	(6,811)
<hr/>	
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position - governmental activities</i>	\$ 253,278
<hr/>	

**NOTE 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

At September 30, 2015, the Town's carrying amount of cash deposits was \$2,703,099 and the bank balance was \$2,741,380. In addition, the Town reported petty cash of \$350. As of September 30, 2015, \$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) Florida Prime, and deposits are secured by government securities as required by Florida Statutes.

Credit risk

The Town adopted investment policy consistent with Florida Statute 218.415 for investment decisions. Money market mutual funds shall be rated "AAm" or "AAm-G" or better by Standard & Poor's, or the equivalent by another rating agency. Investments in any derivative products or the use of reverse repurchase agreements are not permitted. The Police pension plans' policies do 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)**

Interest rate risk

Interest rate risk is the possibility that interest rates will rise and reduce the market value of an investment. The Town has an investment policy that limits investment maturities to five years. Investments in money market funds must have a weighted average maturity of 90 days or less.

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 has an investment policy that addresses concentration of credit risk, however the maximum concentrations are 100% of available funds. The defined contribution plan does not address credit risk.

At September 30, 2015, 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	\$ 423,205	\$ 423,205	\$ -	\$ -	\$ -	AAAm	S&P
	\$ 423,205	\$ 423,205	\$ -	\$ -	\$ -		
Pension trust funds:							
Money market fund	\$ 58,093	\$ 58,093	\$ -	\$ -	\$ -	Not rated	
Corporate stock	711,375	711,375	-	-	-	Not rated	
Bond mutual funds	854,962	854,962	-	-	-	Not rated	
Stock mutual funds	955,488	955,488	-	-	-	Not rated	
	\$ 2,579,918	\$ 2,579,918	\$ -	\$ -	\$ -		

**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	Total Governmental Funds
Accounts receivable	\$ 126,165	\$ 126,165
Utility service tax	22,790	22,790
Total receivables	\$ 148,955	\$ 148,955

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

**NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

**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	Governmental Funds	Total
Taxes and fees	\$ 35,524	-	\$ 35,524	\$ 35,524
Grant receivable	-	57,750	57,750	57,750
<b>Total due from other governments</b>	<b>\$ 35,524</b>	<b>\$ 57,750</b>	<b>\$ 93,274</b>	<b>\$ 93,274</b>

**D. Capital assets**

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

	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	-	205,126	-	205,126
<b>Total capital assets, not being depreciated</b>	<b>897,742</b>	<b>205,126</b>	<b>-</b>	<b>1,102,868</b>
Capital assets, being depreciated:				
Buildings	2,491,586	-	-	2,491,586
Improvements other than buildings	1,149,462	15,667	-	1,165,129
Equipment	1,714,343	83,652	(27,486)	1,770,509
Infrastructure	5,848,555	-	-	5,848,555
<b>Total capital assets being depreciated</b>	<b>11,203,946</b>	<b>99,319</b>	<b>(27,486)</b>	<b>11,275,779</b>
Less accumulated depreciation for:				
Buildings	(760,058)	(70,110)	-	(830,168)
Improvements other than buildings	(690,309)	(56,882)	-	(747,191)
Equipment	(1,236,516)	(118,421)	27,486	(1,327,451)
Infrastructure	(952,888)	(163,786)	-	(1,116,674)
<b>Total accumulated depreciation</b>	<b>(3,639,771)</b>	<b>(409,199)</b>	<b>27,486</b>	<b>(4,021,484)</b>
<b>Total capital assets being depreciated, net</b>	<b>7,564,175</b>	<b>(309,880)</b>	<b>-</b>	<b>7,254,295</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 8,461,917</b>	<b>\$ (104,754)</b>	<b>\$ -</b>	<b>\$ 8,357,163</b>

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

**NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Capital assets (continued)**

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

<b>Governmental activities:</b>		
General government	\$	166,115
Public safety		105,857
Cultural and recreational		74,036
Physical environment		63,191
Total depreciation expense – governmental activities	\$	409,199

**E. Interfund receivables, payable and transfers**

The composition of interfund balances as of September 30, 2015, is as follows:

Transfers in:	Transfers out:	Amount
Debt Service Fund	General Fund	\$ 128,425
Capital Projects Fund	General Fund	32,000
Nonmajor Funds	General Fund	13,473
General Fund	Nonmajor Funds	15,396
Total		\$ 189,294

Significant transfers included \$128,425 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:

<b>Asset:</b>		
Equipment	\$	633,977
Less: Accumulated depreciation		(344,345)
Total	\$	289,632

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

**NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Capital lease (continued)**

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2015, were as follows:

<i>Year Ending September 30,</i>	Principal		Interest		Total
2016	\$	49,519	\$	16,009	\$ 65,528
2017		49,072		13,260	62,332
2018		38,739		10,494	49,233
2019		40,009		8,452	48,461
2020		42,152		6,310	48,462
2021-2025		75,732		5,730	81,462
Total minimum lease payments	\$	295,223	\$	60,255	\$ 355,478

**G. Long-term debt**

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-advallorem 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, 2015 is \$1,315,000, plus an unamortized premium of \$26,923.

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

<i>Year ending September 30,</i>	Principal		Interest		Total
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		75,000		50,625	125,625
2021-2025		430,000		190,250	620,250
2026-2030		545,000		71,125	616,125
Totals	\$	1,315,000	\$	549,075	\$ 1,864,075

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, 2015 is \$2,688,000.

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

**NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

**G. Long-term debt (continued)**

Note Payable

Payment of the principal and interest on the note payable is secured by a pledge of real property ad valorem tax revenues assessed at 0.9999 mils on all property within the Town. The pledged gross revenues were \$301,396 and principal and interest payments were \$273,174 during 2015. As of September 30, 2015, 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:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	188,000	84,938	272,938
2021-2025	1,066,000	298,469	1,364,469
2026-2030	754,000	64,676	818,676
<b>Totals</b>	<b>\$ 2,688,000</b>	<b>\$ 861,225</b>	<b>\$ 3,549,225</b>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
Revenue bonds payable	\$ 1,375,000	\$ -	\$ (60,000)	\$ 1,315,000	\$ 60,000
Bond premium	30,158	-	(3,235)	26,923	-
Total bonds payable	1,405,158	-	(63,235)	1,341,923	60,000
Note payable	2,841,000	-	(153,000)	2,688,000	160,000
Capital leases	339,077	30,790	(74,644)	295,223	49,519
Net OPEB obligation	3,000	-	-	3,000	-
Compensated absences	135,901	78,914	(56,989)	157,826	78,913
Governmental activity long-term liabilities	\$ 4,724,136	\$ 109,704	\$ (347,868)	\$ 4,485,972	\$ 348,432

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

**NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

**H. Operating leases**

The Town does not have any long-term operating leases for the year ended September 30, 2015.

**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 2015. Settled claims have not exceeded commercial excess coverage in any of the past three years.

**B. Florida Retirement System**

*General Information.* All of the Town's employees, except police officers, participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("the Plan") and the Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA"). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, City government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

*Plan Description.* The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program ("DROP") for eligible employees.

**NOTE 4: OTHER INFORMATION (Continued)**

**B. Florida Retirement System (continued)**

*Benefits Provided.* Benefits under the FRS Pension Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

*Contributions.* Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, were as follows: Regular—7.37% and 7.26%; Senior Management Service—21.14% and 21.43%; and DROP participants—12.28% and 18.75%. These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively.

The Town's contributions, including employee contributions, to the Pension Plan totaled \$222,353 for the fiscal year ended September 30, 2015. The contributions to the FRS retirement plan represent the required contributions for each year.



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

**NOTE 4: OTHER INFORMATION (Continued)**

**B. Florida Retirement System (continued)**

*Pension Liabilities and Pension Expense.* In its financial statements for the year ended September 30, 2015, the Town reported a liability for its proportionate shares of the net pension liabilities. The net pension liabilities were measured as of June 30, 2015 and the total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation dated July 1, 2015. The Town's proportion of the net pension liabilities were based on the Town's share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

	FRS	HIS
Net pension liability	\$ 73,709	\$ 105,888
Proportion at:		
Current measurement date	0.000570663%	0.000861064%
Prior measurement date	0.000550387%	0.000872537%
Pension expense (benefit)	\$ 5,761	\$ 9,968

*Deferred outflows/inflows of resources related to pensions.* At September 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,781	\$ 1,748	\$ -	\$ -
Changes of assumptions	4,892	-	8,331	-
Net difference between projected and actual earnings on pension plan investments	25,962	43,563	57	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,222	502	13,754	721
Employer contributions subsequent to the measurement date	3,639	-	1,513	-
Total	\$ 45,496	\$ 45,813	\$ 23,655	\$ 721

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

**NOTE 4: OTHER INFORMATION (Continued)**

**B. Florida Retirement System (continued)**

Deferred outflows of resources related to employer contributions of \$5,152 paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending September 30, 2016. Other pension-related amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<i>Year ending September 30,</i>	FRS	HIS
2016	\$ (1,826)	\$ 3,460
2017	(1,826)	3,460
2018	(1,826)	3,460
2019	(1,826)	3,460
2020	2,574	3,447
Thereafter	774	4,134
<b>Total</b>	<b>\$ (3,956)</b>	<b>\$ 21,421</b>

*Actuarial Assumptions.* The total pension liability for each of the defined benefit plans, measured as of June 30, 2015, was determined by an actuarial valuation dated July 1, 2015, using the individual entry age normal actuarial cost method and the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.65%	N/A
Discount rate	7.65%	3.80%

Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB.

For both plans, the actuarial assumptions used in the valuation dated July 1, 2015 were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The following changes in key actuarial assumptions occurred in 2015:

FRS: No changes in key actuarial assumptions.

HIS: The municipal bond index rate and the discount rate used to determine the total pension liability decreased from 4.29% to 3.80%.

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

**NOTE 4: OTHER INFORMATION (Continued)**

**B. Florida Retirement System (continued)**

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward-looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For the FRS Pension Plan, the table below summarizes the target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class.

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return
Cash	1%	3.2%	3.1%
Fixed income	18%	4.8%	4.7%
Global equity	53%	8.5%	7.2%
Real estate (property)	10%	6.8%	6.2%
Private equity	6%	11.9%	8.2%
Strategic investments	12%	6.7%	6.1%
	<u>100%</u>		

*Discount Rate.* The discount rate used to measure the total pension liability for the FRS Pension Plan was 7.65%. FRS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Plan is essentially funded on a pay-as-you-go basis, a municipal bond rate of 3.80% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

*Sensitivity Analysis.* The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Town's proportionate share of the net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate.

	FRS			HIS		
	Current			Current		
	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Employer's proportionate share of the net pension liability	\$ 190,996	\$ 73,709	\$ (23,894)	\$ 120,654	\$ 105,888	\$ 93,575

**NOTE 4: OTHER INFORMATION (Continued)**

**B. Florida Retirement System (continued)**

*Pension Plans' Fiduciary Net Position.* Detailed information about the pension plans' fiduciary net position is available in the State's separately issued financial reports.

*Payables to the Pension Plans.* As of September 30, 2015, the Town had no outstanding payable to the plans for regular employee or for employer contributions that were legally required to be paid to the plans but not remitted prior to the end of the year.

**C. Retirement Commitments - defined benefit plans**

*Police Officers' Pension Plan*

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

*Plan description* – All full-time police officers are eligible to participate in the Police Officers' Pension Plan ("the 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 7 retirees receiving benefits, and 9 active members. Pension plan data is provided from the respective actuarial reports as of October 1, 2014.

	Police Pension
Plan Membership as of October 1, 2014:	Plan
Inactive Plan Member 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

**NOTE 4: OTHER INFORMATION (Continued)**

**C. 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 police pension plan was \$222,353 which approximated the actuarially determined contribution of \$200,907 for the plan year ended September 30, 2015. 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.

***Plan Description***

***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.

**NOTE 4: OTHER INFORMATION (Continued)**

**C. 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 Police Pension Board’s adopted asset allocation policy as of September 30, 2015:

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

Concentrations:

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

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

**NOTE 4: OTHER INFORMATION (Continued)**

**C. Retirement commitments – defined benefit plans (continued)**

Rate of Return:

For the year ended September 20, 2015, the annual money-weighted rate of return of police pension plan investments, net of pension plan investment expense, was -0.87%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Net Pension Liability Of The Sponsor.* The components of the net pension liability of the sponsor on September 30, 2015 were as follows:

	9/30/2015
Total Pension Liability	\$ 3,467,690
Plan Fiduciary Net Position	(2,570,543)
Sponsor's Net Pension Liability	\$ 897,147

Plan Fiduciary Net Position as a percentage of Total Pension Liability	74.13%
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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, 2015 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%

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)**

**C. 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, 2015 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	\$ 1,245,470	\$ 897,147	\$ 600,034



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

**NOTE 4: OTHER INFORMATION (Continued)**

**C. Retirement commitments – defined benefit plans (continued)**

*Net Pension Liability and Changes in the Net Pension Liability.* The net pension liability for the Plan was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was also determined as of that date.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Reporting period ending September 30, 2014	\$ 3,361,024	\$ 2,622,552	\$ 738,472
Changes for a year:			
Service cost	95,129	-	95,129
Interest	266,454	-	266,454
Differences between expected and actual experience	(3,954)	-	(3,954)
Contributions - Employer	-	222,353	(222,353)
Contributions - State	-	-	-
Contributions - Employee	-	22,464	(22,464)
Net investment income (loss)	-	(22,583)	22,583
Benefit payments, including refunds of employee contributions	(250,963)	(250,963)	-
Administrative expense	-	(23,280)	23,280
Net changes	106,666	(52,009)	158,675
Reporting period ending September 30, 2015	\$ 3,467,690	\$ 2,570,543	897,147

*Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions.* For the year ended September 30, 2015, the Town will recognize pension expense of \$141,703 for the Police Employees' Pension Plan. At September 30, 2015, the Town reported deferred outflows and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ 2,966
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	144,670	-
Total	\$ 144,670	\$ 2,966

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

**NOTE IV: OTHER INFORMATION (Continued)**

**C. Retirement commitments – defined benefit plans (continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ 31,821
2017	31,820
2018	31,820
2019	46,242
2020	-
Thereafter	-
<b>Total</b>	<b>\$ 141,703</b>

The police pension plans' fiduciary net position has been determined on the same basis used by the pension plans and is equal to the market value of assets calculated under the accrual basis of accounting.

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

*Fiduciary Fund Financial Statements.* The Town does not issue separate financial statements for the Police Employees' Pension Trust Fund. The basic financial statements of the Town include a statement of fiduciary net position and a statement of changes in fiduciary net position for the pension trust fund.

**D. 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.

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

**NOTE 4: OTHER INFORMATION (Continued)**

**D. Other post-employment benefits (continued)**

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, 2015, the Town's contribution toward the net OPEB obligation was \$6,000, which includes an estimate of the implied subsidy described above. Actual contributions of Plan members totaled \$24,048 for the year ended September 30, 2015.

**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, 2015, the amount actually contributed to the Plan, and changes in the Town's net OPEB obligation to the Plan:

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

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

**NOTE 4: OTHER INFORMATION (Continued)**

**D. Other post-employment benefits (continued)**

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/15	\$ 6,000	100%	\$ 3,000
09/30/14	5,000	100%	3,000
09/30/13	6,000	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, 2015, 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 approximately \$672,000, and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 3.9%.

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.

**NOTE 4: OTHER INFORMATION (Continued)**

**D. Other post-employment benefits (continued)**

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.

**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. Future Accounting Pronouncements**

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

- Fair value measurement and application; and
- GAAP hierarchy.

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 Supplementary Pension Information – Schedule Of Proportionate**  
**Share of Net Pension Liability – Florida Retirement System – Last Fiscal Year**

<b><i>Florida Retirement System (FRS)</i></b>	<b>2015</b>
Employer's proportion of the net pension liability (asset)	0.0006%
Employer's proportionate share of the net pension liability (asset)	\$ 73,709
Employer's covered-employee payroll (2)	\$ 438,401
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	16.81%
Plan fiduciary net position as a percentage of the total pension liability	92.00%
<b><i>Health Insurance Subsidy Program (HIS)</i></b>	<b>2015</b>
Employer's proportion of the net pension liability (asset)	0.0010%
Employer's proportionate share of the net pension liability (asset)	\$ 105,888
Employer's covered-employee payroll (2)	\$ 438,401
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	24.15%
Plan fiduciary net position as a percentage of the total pension liability	0.50%

**Notes to schedules:**

(1) The amounts presented for each fiscal year were determined as of the measurement date, which was June 30th of the current fiscal year.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those years for which it is available will be presented.



**Town of Melbourne Beach, Florida**  
**Required Supplementary Pension Information – Schedule of Contributions -**  
**Florida Retirement System – Last Fiscal Year**

<b><i>Florida Retirement System (FRS)</i></b>	<b>2015</b>
Contractually required contribution	\$ 14,076
Contributions in relation to the contractually required contribution	14,076
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll (1)	\$ 438,401
Contributions as a percentage of covered-employee payroll	3.21%

<b><i>Health Insurance Subsidy Program (HIS)</i></b>	<b>2015</b>
Contractually required contribution	\$ 4,571
Contributions in relation to the contractually required contribution	4,571
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll (1)	\$ 438,401
Contributions as a percentage of covered-employee payroll	1.04%

**Notes to schedules:**

(1) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

*GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those years for which it is available will be presented.*

**Town of Melbourne Beach, Florida**  
**Required Supplementary Pension Information – Schedules of Contributions**  
**Last Two Fiscal Years**

**Police Pension Plan**

<b>Total Pension Liability</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Service cost	\$ 95,129	\$ 92,542
Interest	266,454	257,604
Differences between expected and actual experience	(3,954)	-
Benefit payments, including refunds of employee contributions	(250,963)	(233,262)
<b>Net change in total pension liability</b>	<b>106,666</b>	<b>116,884</b>
<b>Total pension liability - beginning</b>	<b>3,361,024</b>	<b>3,244,140</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 3,467,690</b>	<b>\$ 3,361,024</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 222,353	\$ 200,907
Contributions - state	-	32,044
Contributions - employee	22,464	21,403
Net investment income	(22,583)	255,971
Benefit payments, including refunds of employee contributions	(250,963)	(233,262)
Administrative expense	(23,280)	(8,111)
<b>Net change in plan fiduciary net position</b>	<b>(52,009)</b>	<b>268,952</b>
<b>Plan fiduciary net position - beginning</b>	<b>2,622,552</b>	<b>2,353,600</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 2,570,543</b>	<b>\$ 2,622,552</b>
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 897,147</b>	<b>\$ 738,472</b>

<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>74.13%</b>	<b>78.03%</b>
<b>Covered employee payroll</b>	<b>\$ 467,561</b>	<b>\$ 428,060</b>
<b>Net pension liability as a percentage of covered employee payroll</b>	<b>191.88%</b>	<b>172.52%</b>

**Town of Melbourne Beach, Florida**  
**Required Supplementary Pension Information – Schedules of Contributions**  
**Last Two Fiscal Years**

**Police Pension Plan**

	September 30, 2015	September 30, 2014
Actuarially determined contribution	\$ 222,353	\$ 232,950
Contributions in relation to the actuarially determined contributions	222,353	232,950
Contribution deficiency	\$ -	\$ -
Covered employee payroll	\$ 467,561	\$ 428,060
Contributions as a percentage of covered employee payroll	47.56%	54.42%

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

**Police Pension Plan**

**Schedule of Investment Returns**

For the year ended September 30,	<b>2015</b>	<b>2014</b>
Annual money-weighted rate of return		
Net of investment expense	<b>-0.87%</b>	10.99%

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

**Police pension Plan**

Valuation Date: 10/1/2013

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

Methods and assumptions used to determine contribution rates:

Funding Method: Entry Age Normal Actuarial Cost Method

Amortization Method: Level Percentage of Pay, Closed

Remaining Amortization Period: 28 Years (as of 10/01/2013)

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**

**Police Pension Plan**

**Termination and Disability Rate Table:**

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 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 (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL 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**  
**Notes to Required Supplementary Information**

<i>Year ended September 30, 2015</i>	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 2,007,583	\$ 2,007,583	\$ 1,992,288	\$ (15,295)
Licenses and permits	9,500	9,500	14,428	4,928
Intergovernmental	240,241	240,241	251,274	11,033
Charges for services	26,153	26,153	17,570	(8,583)
Fines and forfeitures	6,250	6,250	12,492	6,242
Miscellaneous (including interest)	36,332	36,332	71,713	35,381
<b>Total revenues</b>	<b>2,326,059</b>	<b>2,326,059</b>	<b>2,359,765</b>	<b>33,706</b>
<b>Expenditures</b>				
General government:				
Legislative	121,377	120,004	105,255	14,749
Executive	150,269	158,027	157,343	684
Finance	88,961	89,229	87,007	2,222
Legal counsel	57,575	57,575	42,995	14,580
Comprehensive planning	32,000	32,000	22,065	9,935
General services	291,121	262,069	210,531	51,538
<b>Total general government</b>	<b>741,303</b>	<b>718,904</b>	<b>625,196</b>	<b>93,708</b>
Public Safety:				
Law enforcement	980,792	994,781	1,005,238	(10,457)
Fire control	155,116	155,116	155,265	(149)
Code enforcement	15,864	15,864	14,097	1,767
<b>Total public safety:</b>	<b>1,151,772</b>	<b>1,165,761</b>	<b>1,174,600</b>	<b>(8,839)</b>
Recreation	9,703	17,833	14,570	3,263
Physical environment	280,250	275,201	257,743	17,458
<b>Total expenditures</b>	<b>2,183,028</b>	<b>2,177,699</b>	<b>2,072,109</b>	<b>105,590</b>
<b>Excess of revenues over expenditures</b>	<b>143,031</b>	<b>148,360</b>	<b>287,656</b>	<b>139,296</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	-	250	250
Transfers in	15,396	15,396	15,396	-
Transfers out	(141,778)	(173,898)	(173,898)	-
<b>Net other financing (uses)</b>	<b>(126,382)</b>	<b>(158,502)</b>	<b>(158,252)</b>	<b>-</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>				
	16,649	(10,142)	129,404	139,546
<b>Fund balances, beginning of year</b>	<b>1,457,647</b>	<b>1,457,647</b>	<b>1,457,647</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 1,474,296</b>	<b>\$ 1,447,505</b>	<b>\$ 1,587,051</b>	<b>\$ 139,546</b>



**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, 2015, expenditures exceeded appropriations in the General Fund as follows:

<u>Department</u>	<u>Amount</u> <u>Overexpended</u>
Law Enforcement	\$ 10,457
Fire Control	149

**Town of Melbourne Beach, Florida**  
**Notes to Required Supplementary Information**

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

**Expenditures**

	General Fund
Actual amounts (budgetary basis) total expenditures as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ 2,072,109
Differences - budget to GAAP; Capital outlay for equipment and police vehicles for financial reporting purposes, but not reported as an expenditure for budgetary purposes	30,790
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances	\$ 2,102,899

**Other Financing Sources (uses)**

	General Fund
Actual amounts (budgetary basis) net other financing sources (uses) as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ (158,252)
Differences - budget to GAAP; Capital lease proceeds for equipment and police vehicles for financial reporting purposes, but not reported as an expenditure for budgetary purposes	30,790
Net other financing sources (uses) reported on the statement of revenues, expenditures, and changes in fund balances	\$ (127,462)

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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

	Special Revenue			
<i>September 30, 2015</i>	Law Enforcement Forfeiture	Police Education Fund	Police Donations Fund	Building Education Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,429	\$ 10,606	\$ 5,245	\$ 937
Accounts receivable, net	-	-	-	-
<b>Total assets</b>	<b>\$ 1,429</b>	<b>\$ 10,606</b>	<b>\$ 5,245</b>	<b>\$ 937</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related liabilities	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	-	-	-
Law enforcement	1,429	-	-	-
Law enforcement education	-	10,606	5,245	-
Building department education	-	-	-	937
Building department operations	-	-	-	-
Stormwater utility	-	-	-	-
Old Town Hall	-	-	-	-
<b>Total fund balances</b>	<b>1,429</b>	<b>10,606</b>	<b>5,245</b>	<b>937</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,429</b>	<b>\$ 10,606</b>	<b>\$ 5,245</b>	<b>\$ 937</b>

Special Revenue

Building Department Fund	Old Town Hall	Stormwater Utility Fund	Total Nonmajor Governmental Funds
\$ 16,118	\$ 14,963	\$ 199,237	\$ 248,535
-	-	-	-
<b>\$ 16,118</b>	<b>\$ 14,963</b>	<b>\$ 199,237</b>	<b>\$ 248,535</b>
\$ 100	\$ -	\$ -	\$ 100
3,528	-	-	3,528
<b>3,628</b>	<b>-</b>	<b>-</b>	<b>3,628</b>
-	-	-	-
-	-	-	1,429
-	-	-	15,851
-	-	-	937
12,490	-	-	12,490
-	-	199,237	199,237
-	14,963	-	14,963
<b>12,490</b>	<b>14,963</b>	<b>199,237</b>	<b>244,907</b>
<b>\$ 16,118</b>	<b>\$ 14,963</b>	<b>\$ 199,237</b>	<b>\$ 248,535</b>

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

<i>September 30, 2015</i>	Special Revenue			
	Law Enforcement Forfeiture	Police Education Fund	Police Donations Fund	Building Education Fund
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Fines and forfeitures	-	658	-	-
Miscellaneous	-	-	550	351
<b>Total revenues</b>	<b>-</b>	<b>658</b>	<b>550</b>	<b>351</b>
<b>EXPENDITURES</b>				
Current:				
Public safety	-	567	-	-
Recreation	-	-	-	-
Physical environment	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>567</b>	<b>-</b>	<b>-</b>
Excess of revenues over expenditures	-	91	550	351
<b>Other financing sources</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Net other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>-</b>	<b>91</b>	<b>550</b>	<b>351</b>
<b>Fund balances, beginning of year</b>	<b>1,429</b>	<b>10,515</b>	<b>4,695</b>	<b>586</b>
<b>Fund balances, end of year</b>	<b>\$ 1,429</b>	<b>\$ 10,606</b>	<b>\$ 5,245</b>	<b>\$ 937</b>

Special Revenue

Building Department Fund	Old Town Hall	Stormwater Utility Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 54,496	\$ 54,496
99,988	-	-	99,988
-	-	-	658
-	2,839	-	3,740
<b>99,988</b>	<b>2,839</b>	<b>54,496</b>	<b>158,882</b>
85,575	-	-	86,142
-	260	-	260
-	-	30,601	30,601
<b>85,575</b>	<b>260</b>	<b>30,601</b>	<b>117,003</b>
<b>14,413</b>	<b>2,579</b>	<b>23,895</b>	<b>41,879</b>
13,473	-	-	13,473
(15,396)	-	-	(15,396)
(1,923)	-	-	(1,923)
12,490	2,579	23,895	39,956
-	12,384	175,342	204,951
<b>\$ 12,490</b>	<b>\$ 14,963</b>	<b>\$ 199,237</b>	<b>\$ 244,907</b>



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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, 2015, 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 October 10, 2016.

**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.

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 – 2014-002, 2014-003, 2014-005 and 2014-006 – described below to be 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 did not note any material weaknesses in 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.

## **2014-002 RECONCILIATION OF CASH ACCOUNTS – *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. 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:** While improvement was noted from the prior year, the Town’s operating bank reconciliations were not timely prepared for the fiscal year ended September 30, 2015. We noted that the bank reconciliation as of September 30, 2015 contained the initials (documented approval) of a review performed by an individual independent from the preparer of the reconciliation, but did not date the sign-off to evidence timely review.

**Cause:** While improvement was noted, 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 initialed the reconciliation, but did not date the sign-off to evidence timely review.

**Effect:** There is increased risk of financial statement misstatements when cash reconciliations are not performed timely.

**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 and date the auditable documentation of his/her review.

**Management Response:** *We agree with the auditor’s recommendation. The condition of the FY15 bank reconciliations was vastly improved from the FY14 bank reconciliations. The reason for the delay in reconciling the bank statements in total for the first half of the year was due to the FY14 audit was still in progress and FY14 audit adjustments were still pending. All bank statements are reviewed against the general ledger upon receipt to verify all income is received and posted to the proper account and all payroll and electronic fund transfers are accounted for. The bank and investment reconciliations are now initialed and dated by both the preparer and the reviewer.*

## **2014-003 RECEIVABLES AND AMOUNTS DUE FROM OTHER GOVERNMENTS – *Significant Deficiency***

**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.

**2014-003 RECEIVABLES AND AMOUNTS DUE FROM OTHER GOVERNMENTS – Significant Deficiency (Continued)**

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 \$43,987 to properly recognize amounts due to be collected for franchise fees and utility 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.

**Effect:** Revenues and receivables in the General Fund were overstated, prior to audit adjustment, by \$43,987.

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

**Management's Response:** *We agree with the auditor's recommendation. FY14 required numerous audit adjustments as a result of new Finance personnel becoming acquainted with the internal processes. The FY15 audit adjustment was made to correct FY15 revenues for accruals made at the end of FY14.*

**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 timely 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.

## **2014-005 FINANCIAL REPORTING TO MANAGEMENT – *Significant Deficiency (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:** As noted in the prior year, 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:** *We agree with the auditor's recommendation. The current internal reports have been reviewed to ensure that all figures are accurate and totals are calculating correctly. The Town now has personnel in place to review internal reports for accuracy. The Town's Capital Asset Schedule has been revised and updated to reflect an accurate accounting of the Town's Capital Assets reflecting the thresholds established by the Town.*

## **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 30<sup>th</sup>), 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 30<sup>th</sup> of each year.

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

**Condition:** The Town was posting adjustments to the general ledger for the fiscal year ended September 30, 2015 as late as July 20, 2016. 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 30<sup>th</sup> reporting deadline.

**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. The Town did eventually hire a consultant to assist the Finance Manager with year-end close of the financial records; however, the first consultant hired did not have a working knowledge of accounting using the modified accrual basis of accounting. The Town did hire a different consultant to assist them with preparing schedules and reconciliations for the fiscal year 2015 audit.

**Effect:** The Town did not meet the June 30, 2015 deadline to file their annual financial report (AFR) 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 continuing disclosure requirements to timely file its audit report to the Florida League of Cities or the financial institution for long-term debt covenants.

**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.

**Management Response:** *We agree with the auditor's recommendation. The Town is certain the deadline for the upcoming annual financial report will be met timely. The Town has more seasoned personnel, which allows for additional time to attend meetings, seminars and workshops concerning governmental accounting rules and to spend more time working with the accounting software manufacturer to develop more detailed reporting options. The Town has also retained an outside accounting firm to assist the Finance Manager.*

**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 herein. 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.

*Carri Riggs & Ingram, L.L.C.*

Melbourne, Florida

October 10, 2016



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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, 2015, and have issued our report thereon dated October 10, 2016.

### **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**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated October 10, 2016, 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 some of the findings and recommendations made in the preceding annual financial audit report, as noted below:



**Tabulation of Uncorrected Audit Findings and Comments**

<b>Finding No.</b>	<b>Status</b>	<b>Finding No.</b>	<b>Status</b>
SA 2013-001	Closed; not relevant to FY 2015	2014-008	Closed; not relevant to FY 2015
2014-001	Closed	2014-009	Closed; not relevant to FY 2015
2014-002	Not resolved, repeated	2014-010	Closed
2014-003	Not resolved, repeated	ML 2014-001	Not resolved, repeated
2014-004	Closed	ML 2014-002	Not resolved, repeated
2014-005	Not resolved, repeated	ML 2014-003	Closed
2014-006	Not resolved, repeated	ML 2014-004	Closed
2014-007	Closed; not relevant to FY 2015		

**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. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Town of Melbourne Beach, Florida, 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, Florida, 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., and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the Town of Melbourne Beach for the fiscal year ended September 30, 2015, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2015. In connection with our audit, we determined that these two reports were in agreement.

**Other Matters**

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

**ML 2014-001 SEGREGATION OF DUTIES**

**Criteria:** Management does not have procedures in place to ensure payroll increases are entered (updated) in the accounting software in accordance with approved pay increases.

## **ML 2014-001 SEGREGATION OF DUTIES (Continued)**

**Condition:** As reported in the prior year, pay rate increases input into the accounting software (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 Financial Manager process 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:** Increased risk that 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:** *We agree with the auditor's recommendation. The Town does have limited personnel and as such, segregation of duties can be a challenge. The Town will have an independent person verify and review the payroll increases inputted in the Fund Balance software.*

## **ML 2014-002 EXPENDITURES IN EXCESS OF APPROPRIATIONS**

**Criteria:** The Town of Melbourne Beach's legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is defined by the Town's Charter as being at the department level. The Town Commission is required to approve 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 appropriations for law enforcement in the general fund by \$10,457, fire control in the general fund by \$149, and in the building department special revenue fund by \$7,546.

**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 Statutes.

**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 to provide for internal financial reports that are to be reviewed for actual results as compared to budgeted appropriations are complete and accurate to help ensure compliance with the Town's Charter and with Florida Statutes.

**Management Response:** *We agree with the auditor's recommendation. A month-end and year-end review of budget versus actual spending has been implemented to ensure the timely identification of potential need for budget revisions to accommodate the needs of the department.*

## **ML 2015-001 INVESTMENT POLICY**

**Criteria:** 218.415, Florida Statutes, and Town Resolution 2010-05.

**Condition:** Our review of the Town's investment policy (cash management policy) revealed that certain matters were not addressed during the fiscal year.

- 1) Monthly investment performance reports were not prepared by the Finance Manager, submitted to the Town Manager, who then should submit to the Town Commission.
- 2) The policy does not address continuing education requirements, nor did the Town Manager complete 8 hours of continuing education related to investment practices or products during the fiscal year.

**Cause:** It appears that Town officials were unaware of specific criteria.

**Effect:** Noncompliance with Florida Statutes and the Town's investment policy.

**Recommendation:** The Town should develop and implement procedures to provide investment performance reports in accordance with its policy. In addition, the Town should evaluate its policy and revise it as necessary to address continuing education requirements.

**Management response:** *We agree with the auditor's recommendation. The Town Manager and the Finance Manager will attend the required amount of continuing education as required by Florida Statute 218.415. The Finance Manager will also present to the Town Manager, for presentation to the Commission reports, reflecting the current performance of the Town's investments.*

## **ML 2015-002 BUDGET ADMINISTRATION (Timeliness)**

**Criteria:** Sections 166.241(3) and 166.241(4) F.S.

**Condition:** During our review of the Town's budget information and budget amendment process, we noted lack of timeliness of posting to the Town's web site the final adopted budget within 30 days of adoption; final budget was adopted November 21, 2014 and posted to the Town's web site in February 2015. In addition, we noted the Town exceeded the 60 day limitation on amending its budget after fiscal year end; resolution 2015-16 was approved December 2, 2015.

**Cause:** The Town's management did not adhere to the Florida Statutes; likely due to combination of turnover in key management positions and unfamiliarity with requirements.

**Effect:** Noncompliance with criteria governing budget amendments.

**Recommendation:** The Town should develop and implement procedures to timely adhere to amendment preparation and approval, and for the timely dissemination of budget documents, as required by Florida statutes.

## **ML 2015-002 BUDGET ADMINISTRATION (Timeliness) (Continued)**

**Management response:** *We agree with the auditor's recommendation. The Town had turnover with the Clerk and Deputy Clerk during that time as well as a new Finance Manager and Town Manager. The late filings were a direct result of those turnovers. The Town continued to have employee turnover through-out 2015 but has since stabilized.*

## **ML 2015-003 DISSEMINATION OF POLICE PENSION PLAN PERFORMANCE**

**Criteria:** Best practice related to transparency of information made available to the citizenry.

**Condition:** In reviewing the Town's Police Pension Plan information, we noted lack of timeliness of updating to the Town's web site regarding the Plan's investment performance and actuarial valuations. It appears the web site information had not been updated since September 30, 2014.

**Cause:** The Town's management did not take initiative to provide current or updated information in a timely manner.

**Effect:** Current investment performance is not being disseminated.

**Recommendation:** The Town should develop and implement procedures for timely dissemination of current information regarding the Plan's investment performance and actuarial valuations.

**Management response:** *We agree with the auditor's recommendation. The Town Manager and Finance Manager have taken a more active role regarding the performance of the Police Pension Plan. The Town has asked for monthly updates from the Pension Advisor to be provided to the Commissioners at their regular monthly meeting.*

## **ML 2015-004 EXCESSIVE JOURNAL ENTRIES**

**Criteria:** Journal entries should be prepared, based on adequate support, approved and posted to the general ledger to accomplish accounting or financial reporting objectives. The expected results of adjustments should be verified to the accounting records.

**Condition:** We noted numerous general journal entries (GJE) and reversals for errors in processing, problems with booking revenue and expenditure accruals, breaks in GJE sequence due to changing between accounting periods and fiscal years, and restarting the Town's preparation for the fiscal year 2014 and 2015 financial statement audits.

**Cause:** The Town's Finance Manager did not sufficiently document support for journal entries made throughout the year. Certain journal entries were accepted from the Town's various consultants and recorded, however the effect of the entries was not verified to the general ledger accounts once posted. Numerous journal entries were recorded and reversed and then re-recorded numerous times.

**Effect:** There is increased risk that improper or inaccurate adjustments to the accounting recorded via journal entries, whether caused by error or fraud, would go undetected, and result in material misstatements in the financial statements.

## ML 2015-004 EXCESSIVE JOURNAL ENTRIES (Continued)

**Recommendation:** The Town should develop and implement procedures to properly document the recording of adjustments to the accounting records (general ledger) via journal entries, and to document supervisory level review as a mitigating control. The effect of journal entries should be monitored to ensure the entries accomplish the intended purposes.

**Management response:** *We agree with the auditor's recommendation. General ledger journal entries have been reduced greatly from early FY15 to the end of the fiscal year. A lack of familiarity regarding the Town's accounting software contributed greatly to the entries and reversals. That issue has since been resolved. Journal entry adjustments are documented and placed in a file for future reference.*

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 no such findings.

### Purpose of this Letter

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

*Caru, Riggs & Ingram, L.L.C.*

Melbourne, Florida  
October 10, 2016



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## **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES**

Honorable Mayor and Members of Town Commission  
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, 2015. 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, with the exceptions noted in ML 2015-001 of the Independent Auditors' Management Letter, the Town of Melbourne Beach complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

This report is intended solely for the information and use of 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  
October 10, 2016