

**TOWN OF MELBOURNE BEACH, FLORIDA  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**



**TOWN COMMISSION**

*Jim Simmons, Mayor  
Margot Dorfman, Vice Mayor  
Tom Davis  
Gail Gowdy  
Steve Walters*

**TOWN MANAGER**

*Timothy Day*

**TOWN CLERK**

*Gwen Peirce*

**FINANCE MANAGER**

*Elizabeth Mascaro*

**TOWN OF MELBOURNE BEACH, FLORIDA  
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SEPTEMBER 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Town Commission, and Town Manager,  
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, 2016, 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*

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

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

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## ***Opinions***

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, as of September 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General and Building Department funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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.

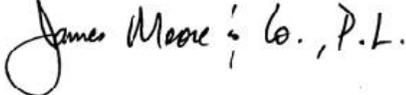
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017, on our consideration of the Town'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Daytona Beach, Florida  
May 12, 2017

## **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, 2016.

### **Financial Highlights**

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2016 fiscal year by \$6,460,797 (net position). Of this amount, \$5,418,772 is net investment in capital assets while restricted net position is \$63,966. \$978,059 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net position increased \$223,588 from the previous year.
- As of the close of fiscal year 2016, the Town's governmental funds reported combined ending fund balances of \$3,360,935, an increase of \$218,833 in comparison with the prior year. While \$1,400,817 represents the portion restricted by outside parties, \$225,574 is committed by ordinance, and \$5,633 is assigned for capital improvements, \$1,655,624 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$73,287 of governmental fund balance is non-spendable for current obligations.
- At the end of the 2016 fiscal year, unassigned fund balance for the general fund was \$1,655,624 or 52.35 % of total general fund expenditures.
- The Town's total long term liabilities decreased by \$296,332 during the 2016 fiscal year. This reflects the repayment of outstanding balances for bonds, notes and capital leases. This also reflects a decrease in the liability for compensated absences.

### **Overview of the Financial Statements**

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

#### Government-wide financial statements

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). 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 12-13 of this report.

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

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 13 individual governmental funds, including the General Fund, Capital Projects Fund, (2) Debt Service Funds, Building Department, Police Education, Police Donations, Law Enforcement Forfeiture, Building Education, Stormwater Utility, Historic Preservation, and Old Town Hall. The General Fund, 2 Debt Service Funds (combined), Building Department, and Capital Projects Fund are reported as major funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the majors funds. 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 14-17 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 20-21 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 22-46 of this report.

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

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 and other post-employment benefits to its employees. Required supplementary information can be found on pages 47-53 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 54-55 of this report.

**Government-wide Financial Analysis**

The following is a summary of the Town's governmental activities net position for each of the past two years:

	<u>2016</u>	<u>2015*</u>
Assets		
Current and other assets	\$ 3,530,880	\$ 3,437,842
Capital assets, net	8,194,539	8,357,163
Total assets	<u>\$ 11,725,419</u>	<u>\$ 11,795,005</u>
Deferred outflows of resources	<u>\$ 311,490</u>	<u>\$ 269,903</u>
Liabilities		
Current liabilities	\$ 144,947	\$ 204,128
Noncurrent liabilities	5,365,518	5,562,717
Total liabilities	<u>\$ 5,510,465</u>	<u>\$ 5,766,845</u>
Deferred inflows of resources	<u>\$ 65,647</u>	<u>\$ 60,854</u>
Net position		
Net investment in capital assets	\$ 5,418,772	\$ 5,357,497
Restricted	63,966	1,236,201
Unrestricted	978,059	(356,489)
Total net position	<u>\$ 6,460,797</u>	<u>\$ 6,237,209</u>

\*Approximately \$1.2 million in net position was improperly reported in the prior year as restricted instead of unrestricted, resulting in similar variances between these two amounts from 2016 to 2015. This explanation is being provided in lieu of restatement.

Town of Melbourne Beach, Florida  
Management's Discussion and 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 \$6,460,797 at the close of the 2016 fiscal year. By far the largest portion of the Town's net position (83.87% 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, \$63,966 represents resources that are subject to external restrictions on how they may be used. These restrictions relate primarily to externally imposed restrictions on funding for debt and capital purposes. 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 \$978,059 for the 2016 fiscal year.

The following is a summary of the changes in the Town's governmental activities net position for each of the past two years:

	<u>2016</u>	<u>2015</u>
<i>Revenues:</i>		
Program Revenues:		
Charges for Services	\$ 263,170	\$ 174,577
Operating Grants	88,481	17,500
Capital Grants	7,724	58,750
General Revenues:		
Property taxes	1,647,536	1,538,077
Sales and use taxes	324,799	-
Franchise and utility taxes	239,020	236,573
Public services taxes	298,040	557,475
Insurance premium taxes	32,271	-
State revenue sharing	78,033	250,274
Investment earnings (loss)	2,399	1,119
Miscellaneous revenues	22,579	7,357
Total Revenues	<u>3,004,052</u>	<u>2,841,702</u>
<i>Expenses:</i>		
General government	866,869	790,640
Public safety	1,276,137	1,257,327
Physical environment	345,887	354,539
Culture/recreation	89,432	80,972
Interest on long-term debt	202,139	206,993
Total Expenses	<u>2,780,464</u>	<u>2,690,471</u>
Change in net position	223,588	151,231
Beginning net position	<u>6,237,209</u>	<u>6,085,978</u>
Ending net position	<u>\$ 6,460,797</u>	<u>\$ 6,237,209</u>

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

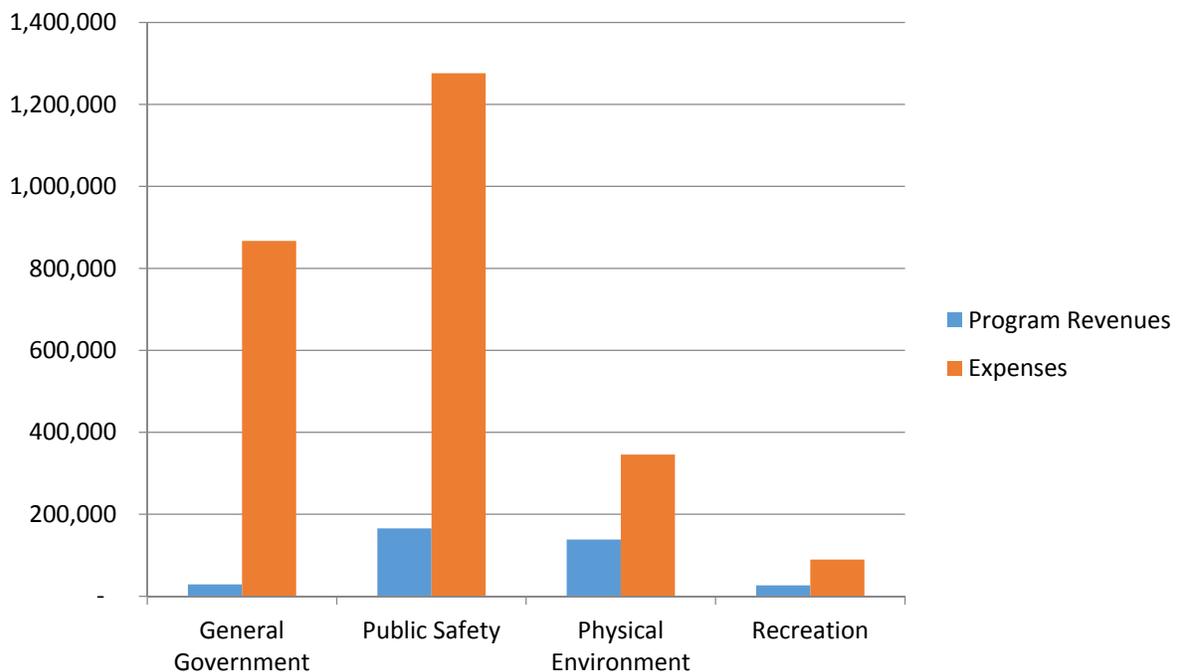
Governmental activities

Governmental activities increased the Town's net position by \$223,588. This amount is primarily attributable to increases in general revenues including property taxes, other taxes, recreation and other revenues.

- The Town's total revenues related to governmental activities increased by approximately \$162,350 from the prior year. Factors that contributed to an increase in revenues are an increase in property taxes of \$109,459 and a \$88,593 increase in charges for services, primarily related to building permit activity.
- Expenses related to governmental activities increased by \$89,993 from the prior year. This is related to an increase in general government of \$76,229 to cover the cost of upgrades to the Town's computer system and HVAC.

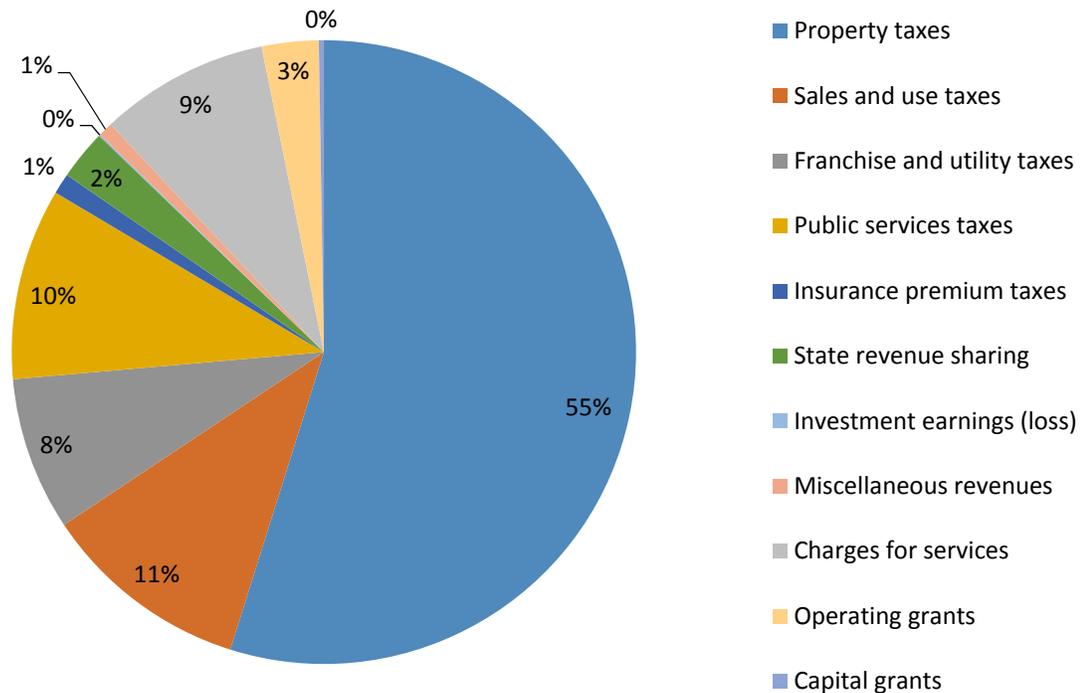
**Expenses and Program Revenues - Governmental Activities**

The following chart summarizes the Town's program revenues and expenses by function:



### Revenues by Source - Governmental Activities

The following chart summarizes the Town's revenues by source:



### 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 2016, the Town's governmental funds reported combined ending fund balances of \$3,360,935, an increase of \$218,833 in comparison with the prior year. As of the end of fiscal year 2016, \$73,287 of the fund balance is designated as non-spendable to indicate that it is not available for new spending because it has already been spent on prepaid items. A portion of the fund balances is restricted in use by outside parties for the following: \$86,330 for debt purposes; \$5,515 for historic preservation; \$1,277,014 for stormwater construction; \$14,477 for education; \$1,429 for law enforcement; and \$16,016 building department operations. \$225,574 is committed by ordinance for stormwater utility management. Additionally, \$5,633 has been assigned by the Town Commission for capital improvements. The remaining amount, \$1,655,624 constitutes unassigned fund balance, which is available for spending at the government's discretion.

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

The General Fund is the chief operating fund of the Town. At the end of the 2016 fiscal year, unassigned fund balance of the general fund was \$1,686,158 while total general fund balance was \$1,759,445. 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. An excess of revenues over expenditures of \$255,346 was offset by \$126,548 of transfers to the debt service fund for debt payments and transfers of \$52,000 to the capital projects fund for capital improvements.

The Capital Projects Fund has a fund balance of \$1,288,198. The net increase in fund balance during the current year in the capital projects fund was \$14,482. The increase was related to recognizing the revenue from the St. Johns Water Grant in fiscal 2016 for expenditures made in the prior year for which the related reimbursements were unavailable as of September 30, 2015.

The Debt Service Fund has a fund balance of \$86,330. The net increase during the current year in the debt service fund was \$49,902. 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 Nonmajor Funds have a fund balance of \$257,496 at the end of the year. The net increase in the funds of \$25,079 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 Debt Administration**

**Capital assets.** The Town's investment in capital assets for its governmental funds as of September 30, 2016, amounts to \$8,194,539 (net of accumulated depreciation). This represents a net decrease of \$162,624. The current year additions include \$68,448 of buildings and improvements, \$225,324 of equipment, and \$220,826 of infrastructure. The Town had one stormwater construction project underway during 2015 and the completed project was capitalized as infrastructure in 2016. These additions were offset by current year depreciation expense which totaled \$461,111, and a \$10,985 loss on the disposition of depreciable assets during the year.

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

The following summaries the Town's capital assets as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated –		
Land	\$ 897,742	\$ 897,742
Construction in progress	-	205,126
Total capital assets, not being depreciated	<u>897,742</u>	<u>1,102,868</u>
Capital assets, being depreciated –		
Buildings and improvements	3,669,447	3,656,715
Equipment	1,892,470	1,770,509
Infrastructure	<u>6,068,055</u>	<u>5,848,555</u>
Total capital assets, being depreciated	11,629,972	11,275,779
Less: accumulated depreciation	<u>(4,333,175)</u>	<u>(4,021,484)</u>
Total capital assets, being depreciated, net	<u>7,296,797</u>	<u>7,254,295</u>
Governmental activities capital assets, net	<u>\$ 8,194,539</u>	<u>\$ 8,357,163</u>

Additional information on the Town's capital assets can be found in Note 6 on page 32 of this report.

**Long-term Debt.** At the end of the 2016 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$3,756,798.

The following summaries the Town's long-term debt (excluding the net pension liability and OPEB obligation) as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Notes and bonds payable	\$ 3,783,000	\$ 4,003,000
Les deferred amounts:		
Original issue premium	23,693	26,816
Original issue (discount)	<u>(49,895)</u>	<u>(56,473)</u>
Total notes and bonds payable	3,756,798	3,973,343
Capital leases	295,983	295,223
Compensated absences	<u>156,723</u>	<u>157,826</u>
Total	<u>\$ 4,209,504</u>	<u>\$ 4,426,392</u>

The Town's long-term liabilities decreased by \$216,888 during the current fiscal year. This decrease was attributable to repayment of bonds, notes and capital leases and a decrease for compensated absences.

Additional information on the Town's long-term liabilities can be found in Notes 7 and 8 on pages 32-33 of this report.

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

The Town Commission approved a millage rate of 3.8864 for Fiscal Year 2017. The millage rate for Fiscal Year 2016 was 4.1105. The taxable value of real property increased by 6.87% percent for Fiscal Year 2016 and is expected to increase in Fiscal Year 2017.

### **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 an additional Police vehicles, the addition of a full time Fire Manager position, improvements to the Fire Department exhaust system and non-skid floors as well as purchasing additional SCBA equipment. Public Works anticipates upgrades to Ocean and Ryckman Park. Additional repairs and improvements are anticipated for Town roads, including striping and re-pavement and curb replacement.

### **Requests for Information**

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

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**SEPTEMBER 30, 2016**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,812,518
Investments	425,505
Receivables, net	162,411
Due from other governments	57,159
Prepays	73,287
Capital assets:	
Non-depreciable capital assets	897,742
Other capital assets, net of depreciation	7,296,797
Total assets	<u>\$ 11,725,419</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>\$ 311,490</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 33,714
Accrued payroll and employee benefits	39,193
Customer deposits	5,467
Unearned revenue	6,736
Accrued interest payable	59,837
Noncurrent liabilities:	
Due within one year:	
Bonds and notes payable	231,000
Capital leases	66,566
Compensated absences	78,362
Due in more than one year:	
Bonds and notes payable	3,525,798
Capital leases	229,417
Compensated absences	78,361
Net OPEB obligation	3,000
Net pension liability	1,153,014
Total liabilities	<u>\$ 5,510,465</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>\$ 65,647</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 5,418,772
Restricted for:	
Debt service	26,493
Capital projects	21,567
Law enforcement	14,598
Building department education	1,308
Unrestricted	978,059
Total net position	<u>\$ 6,460,797</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 866,869	\$ 27,982	\$ 790	\$ -	\$ (838,097)
Public safety	1,276,137	157,820	105	7,724	(1,110,488)
Physical environment	345,887	54,195	84,334	-	(207,358)
Culture and recreation	89,432	23,173	3,252	-	(63,007)
Interest on long-term debt	202,139	-	-	-	(202,139)
Total governmental activities	<u>\$ 2,780,464</u>	<u>\$ 263,170</u>	<u>\$ 88,481</u>	<u>\$ 7,724</u>	<u>(2,421,089)</u>
General revenues:					
Property taxes					1,647,536
Sales and use taxes					324,799
Franchise and utility taxes					239,020
Public service taxes					298,040
Insurance premium taxes					32,271
State revenue sharing					78,033
Investment earnings (loss)					2,399
Miscellaneous revenues					22,579
Total general revenues and transfers					<u>2,644,677</u>
Change in net position					223,588
Net position - beginning					6,237,209
Net position - ending					<u>\$ 6,460,797</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	<u>General</u>	<u>Building Department</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,180,338	\$ -	\$ 86,330	\$ 1,288,354	\$ 257,496	\$ 2,812,518
Investments	425,505	-	-	-	-	425,505
Receivables, net	162,411	-	-	-	-	162,411
Due from other governments	57,159	-	-	-	-	57,159
Due from other funds	26,174	-	-	-	-	26,174
Prepaid items	73,287	-	-	-	-	73,287
Total assets	<u>\$ 1,924,874</u>	<u>\$ -</u>	<u>\$ 86,330</u>	<u>\$ 1,288,354</u>	<u>\$ 257,496</u>	<u>\$ 3,557,054</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 33,003	\$ 555	\$ -	\$ 156	\$ -	\$ 33,714
Accrued liabilities	35,388	3,805	-	-	-	39,193
Customer deposits	5,467	-	-	-	-	5,467
Unearned revenue	6,736	-	-	-	-	6,736
Due to other funds	-	26,174	-	-	-	26,174
Total liabilities	<u>\$ 80,594</u>	<u>\$ 30,534</u>	<u>\$ -</u>	<u>\$ 156</u>	<u>\$ -</u>	<u>\$ 111,284</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues	<u>\$ 84,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,835</u>
<b>FUND BALANCES</b>						
Nonspendable:						
Prepaid items	\$ 73,287	\$ -	\$ -	\$ -	\$ -	\$ 73,287
Restricted for:						
Debt service	-	-	86,330	-	-	86,330
Historic preservation	-	-	-	5,551	-	5,551
Stormwater construction	-	-	-	1,277,014	-	1,277,014
Law enforcement	-	-	-	-	1,429	1,429
Law enforcement education	-	-	-	-	13,169	13,169
Building department education	-	-	-	-	1,308	1,308
Old Town Hall	-	-	-	-	16,016	16,016
Committed to:						
Stormwater utility	-	-	-	-	225,574	225,574
Assigned to:						
Capital improvements	-	-	-	5,633	-	5,633
Unassigned	1,686,158	(30,534)	-	-	-	1,655,624
Total fund balances	<u>\$ 1,759,445</u>	<u>\$ (30,534)</u>	<u>\$ 86,330</u>	<u>\$ 1,288,198</u>	<u>\$ 257,496</u>	<u>\$ 3,360,935</u>

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

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

**Fund balances - total governmental funds** \$ 3,360,935

Amounts reported for governmental activities in the statement of net position are different because:

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

Total governmental capital assets	12,527,714	
Less: accumulated depreciation	<u>(4,333,175)</u>	8,194,539

On the governmental fund statements, a net pension liability is not recorded until an amount is due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits (no such liability exists at the end of the current fiscal year). On the Statement of Net Position, the City's net pension liability of the defined benefit pension plans is reported as a noncurrent liability. Additionally, deferred outflows and deferred inflows related to pensions are also reported.

Net pension liability	(1,153,014)	
Deferred outflows related to pensions	311,490	
Deferred inflows related to pensions	<u>(65,647)</u>	(907,171)

Because some of the City's revenues will not be collected for several months after the close of the City's fiscal year end, they are not considered as "available" revenues in the governmental funds, and therefore, reported as deferred inflows of unavailable revenues. In the statement of net position, which is presented on an accrual basis, no deferral is reported since the revenue is fully recognized in the statement of activities.

84,835

Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities and other long-term liabilities consist of the following:

Bonds and notes payable	(3,806,693)	
Capital leases payable	(295,983)	
Loss on refunding of debt	49,895	
Accrued interest payable	(59,837)	
Net OPEB obligation	(3,000)	
Compensated absences	<u>(156,723)</u>	(4,272,341)

**Net position of governmental activities** \$ 6,460,797

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

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

	<u>General</u>	<u>Building Department</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 2,117,683	\$ -	\$ 323,604	\$ -	\$ -	\$ 2,441,287
Licenses and permits	17,584	550	-	-	371	18,505
Intergovernmental	267,581	-	-	57,750	-	325,331
Charges for services	36,166	110,174	-	-	54,195	200,535
Fines and forfeitures	8,687	1,650	-	-	593	10,930
Interest revenues (loss)	2,399	-	-	-	-	2,399
Miscellaneous	52,242	-	-	1,280	1,533	55,055
Total revenues	<u>2,502,342</u>	<u>112,374</u>	<u>323,604</u>	<u>59,030</u>	<u>56,692</u>	<u>3,054,042</u>
<b>Expenditures</b>						
Current:						
General government	661,083	-	-	-	-	661,083
Public safety	1,017,301	137,398	-	-	1,700	1,156,399
Parks and recreation	9,512	-	-	-	375	9,887
Physical environment	253,602	-	-	2,481	27,858	283,941
Capital outlay	213,725	-	-	94,067	1,680	309,472
Debt service						
Principal	76,332	-	220,000	-	-	296,332
Interest and fiscal charges	15,441	-	180,250	-	-	195,691
Total expenditures	<u>2,246,996</u>	<u>137,398</u>	<u>400,250</u>	<u>96,548</u>	<u>31,613</u>	<u>2,912,805</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>255,346</u>	<u>(25,024)</u>	<u>(76,646)</u>	<u>(37,518)</u>	<u>25,079</u>	<u>141,237</u>
<b>Other financing sources (uses)</b>						
Transfers in	18,000	-	126,548	52,000	-	196,548
Transfers out	(178,548)	(18,000)	-	-	-	(196,548)
Proceeds from sale of capital assets	504	-	-	-	-	504
Issuance of debt	77,092	-	-	-	-	77,092
Total other financing sources (uses)	<u>(82,952)</u>	<u>(18,000)</u>	<u>126,548</u>	<u>52,000</u>	<u>-</u>	<u>77,596</u>
<b>Net change in fund balances</b>	<u>172,394</u>	<u>(43,024)</u>	<u>49,902</u>	<u>14,482</u>	<u>25,079</u>	<u>218,833</u>
<b>Fund balances, beginning of year</b>	1,587,051	12,490	36,428	1,273,716	232,417	3,142,102
<b>Fund balances, end of year</b>	<u>\$ 1,759,445</u>	<u>\$ (30,534)</u>	<u>\$ 86,330</u>	<u>\$ 1,288,198</u>	<u>\$ 257,496</u>	<u>\$ 3,360,935</u>

The accompanying notes to financial statements are an integral part of this 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  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 218,833</b>
Differences in amounts reported for governmental activities in the statement of activities are:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital outlay expenditures	309,472
Depreciation expense	(461,111)
Bond and loan proceeds are reported as financing sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net position. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net position. These amounts are as follows:	
Proceeds from issuance of long-term debt	(77,092)
Principal repayment of general long-term debt	298,340
In the statement of activities, only the gain/loss on sale/disposal of capital assets is reported. However, in governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold/disposed.	
	(10,985)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements:	
Collection of grant receivable reported as deferred inflow in prior year	(57,750)
Net payments on unavailable receivable	7,256
Governmental funds report contributions to defined benefit pension plans as expenditures. However, in the Statement of Activities, the amount contributed to defined benefit pension plans reduces future net pension liability. Also included in pension expense in the Statement of Activities are amounts required to be amortized.	
Change in net pension liability and deferred inflows/outflows related to pensions	5,253
Under the modified accrual basis of accounting used in the 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, expenses and liabilities are reported regardless of when financial resources are available. These adjustments are as follows:	
Change in accrued interest on long-term debt	(9,731)
Change in compensated absences liability	1,103
<b>Change in net position of governmental activities</b>	<b>\$ 223,588</b>

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

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 2,097,041	\$ 2,097,041	\$ 2,117,683	\$ 20,642
Licenses and permits	14,100	14,100	17,584	3,484
Intergovernmental	242,957	242,957	267,581	24,624
Charges for services	25,961	25,961	36,166	10,205
Fines and forfeitures	11,900	10,700	8,687	(2,013)
Interest revenues	850	850	2,399	1,549
Miscellaneous	36,860	36,860	52,242	15,382
Total revenues	<u>2,429,669</u>	<u>2,428,469</u>	<u>2,502,342</u>	<u>73,873</u>
<b>Expenditures</b>				
Current:				
General Government:				
Legislative	98,494	98,494	88,169	10,325
Executive	141,216	139,952	127,067	12,885
Finance	97,229	119,445	121,363	(1,918)
Legal	60,575	85,286	85,285	1
Grants & special projects	24,000	24,000	16,138	7,862
Contingency and other	296,490	289,955	238,605	51,350
Public Safety:				
Police	1,010,426	970,098	993,015	(22,917)
Fire	204,843	204,843	242,092	(37,249)
Code enforcement	16,013	16,013	14,905	1,108
Parks and recreation	9,600	9,600	9,512	88
Physical environment	311,098	311,098	310,845	253
Total expenditures	<u>2,269,984</u>	<u>2,268,784</u>	<u>2,246,996</u>	<u>21,788</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>159,685</u>	<u>159,685</u>	<u>255,346</u>	<u>95,661</u>
<b>Other financing sources (uses)</b>				
Transfers in	18,000	18,000	18,000	-
Transfers out	(177,935)	(177,935)	(178,548)	(613)
Proceeds from sale of capital assets	250	250	504	254
Issuance of debt	-	-	77,092	77,092
Total other financing sources (uses)	<u>(159,685)</u>	<u>(159,685)</u>	<u>(82,952)</u>	<u>76,733</u>
<b>Net change in fund balances</b>	<u>-</u>	<u>-</u>	<u>172,394</u>	<u>172,394</u>
<b>Fund balances, beginning of year</b>	1,587,051	1,587,051	1,587,051	-
<b>Fund balances, end of year</b>	<u>\$ 1,587,051</u>	<u>\$ 1,587,051</u>	<u>\$ 1,759,445</u>	<u>\$ 172,394</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - BUILDING DEPARTMENT FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Licenses and permits	\$ 1,100	\$ 1,100	\$ 550	\$ (550)
Charges for services	105,011	105,011	110,174	5,163
Fines and forfeitures	1,881	1,881	1,650	(231)
Total revenues	<u>107,992</u>	<u>107,992</u>	<u>112,374</u>	<u>4,382</u>
<b>Expenditures</b>				
Current:				
Public Safety:				
Building Department	131,693	131,693	137,398	(5,705)
Total expenditures	<u>131,693</u>	<u>131,693</u>	<u>137,398</u>	<u>(5,705)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(23,701)</u>	<u>(23,701)</u>	<u>(25,024)</u>	<u>(1,323)</u>
<b>Other financing sources (uses)</b>				
Transfers out	(18,000)	(18,000)	(18,000)	-
<b>Net change in fund balances</b>	<u>(41,701)</u>	<u>(41,701)</u>	<u>(43,024)</u>	<u>(1,323)</u>
<b>Fund balances, beginning of year</b>	12,490	12,490	12,490	-
<b>Fund deficits, end of year</b>	<u>\$ (29,211)</u>	<u>\$ (29,211)</u>	<u>\$ (30,534)</u>	<u>\$ (1,323)</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2016**

	<b><u>Municipal Police Officers' Retirement Trust Fund</u></b>
<b>ASSETS</b>	
Cash and cash equivalents with trustee	\$ 79,086
Receivables	
Employer contributions receivable	1,024
Investments, at fair value	
Mutual and pooled funds	<u>2,677,181</u>
Total assets	<u><u>\$ 2,757,291</u></u>
 <b>NET POSITION</b>	
Restricted for pensions	<u><u>\$ 2,757,291</u></u>

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

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

	<b>Municipal Police Officers' Retirement Trust Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 186,596
Plan members	23,298
State - insurance premium taxes	32,271
Total contributions	242,165
Investment earnings:	
Net appreciation (depreciation) in fair value of investments	221,491
Total additions	463,656
<b>Deductions</b>	
Benefit payments	260,105
Administrative expenses	16,803
Total deductions	276,908
<b>Change in net position</b>	186,748
<b>Net position restricted for pensions, beginning of year</b>	2,570,543
<b>Net position restricted for pensions, end of year</b>	\$ 2,757,291

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

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:**

The financial statements of the Town of Melbourne Beach, Florida (the Town), have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of the Town's significant accounting policies:

(a) **Reporting entity**—The Town is a municipal corporation created by the Laws of Florida, located in Brevard County. The Town was originally incorporated under the general Laws of Florida in 1923, and adopted its first charter in November 1973, under the provisions of Chapter 9833, Laws of Florida, Acts of 1923. The legislative branch of the Town is composed of an elected five-member Town Commission consisting of the Mayor and four commissioners. The Town Commission is governed by the Town Charter and by state and local laws and regulations. The Town Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Commission-appointed Town Manager.

The accompanying financial statements present the financial position, results of operations, and cash flows of the applicable funds governed by the Town Commission of the Town, the reporting entity of government for which the Town Commission is considered to be financially accountable. In evaluating the Town as a reporting entity, management has addressed all potential component units that may or may not fall within the Town's oversight and control, and thus, be included in the Town's financial statements. No such entities or component units have been identified.

(b) **Government-wide and fund financial statements**—The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and are reflected, on a full accrual, economic resource basis, which incorporates long term assets and receivables as well as long term debt and obligations. The Town has no business-type activities.

The government-wide statement of activities reflects both the gross and net costs per functional category (public safety, physical environment, etc.), which are otherwise being supported by general government revenues (property, sales taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by the related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function) is normally covered by general revenue (property, sales taxes, intergovernmental revenues, interest income, etc.). This government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements emphasize the major funds of the Town.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

The governmental funds' major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to demonstrate legal compliance and demonstrate how the Town's actual experience conforms to the budgeted fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the page following the Governmental Funds – Balance Sheet and the Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances, which briefly explains the adjustments necessary to transform the fund-based financial statements into the government-wide presentation.

The Town's fiduciary fund is presented in the fund financial statements by type (pension). Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

As a general rule, the effect of interfund Town activities has been eliminated from the government-wide financial statements.

(c) **Measurement focus and basis of accounting**—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.

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 pensions, are recorded only when payment is due.

Taxes, intergovernmental revenue, licenses and permits, charges for services, 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

(d) **Financial statement presentation**—The financial transactions of the Town are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The GASB Codification sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of all funds combined) for the determination of major funds.

The Town reports the following major governmental funds:

The **General Fund** accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the Town are financed through revenues received by the General Fund.

The **Building Department Fund** is a special revenue fund which accounts for the financial resources related to the Town's building department.

The **Debt Service Fund** is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs. This fund type is used to provide for the debt service requirements of the Town's governmental long-term debt. The Town operates multiple debt service funds that account for all general fund debt service expenses.

The **Capital Projects Fund** is used to account for financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities or other capital assets. The Town operates multiple capital projects funds that account for all general fund capital outlay expenses.

Additionally, the Town reports the following fiduciary fund:

The **Pension Trust Fund** accounts for the financial activities of the Police Officers' Retirement Trust Fund, which accumulates financial resources to pay pension benefits to qualified police officers.

(e) **Budgets and budgetary accounting**—Annual budgets for all governmental funds were adopted in compliance with Florida law. The basis on which the budgets are prepared is consistent with the basis of accounting utilized by the various fund types. The governmental funds' budgets are prepared on the modified accrual basis of accounting. The Town uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- i. Prior to September 1st, the Town Manager submits a preliminary budget to the Town Commission for the ensuing fiscal year.
- ii. Budget workshop sessions are scheduled by the Town Commission, as needed.
- iii. A general summary of the budget and notice of public hearing is published in a local newspaper.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

- iv. Prior to October 1<sup>st</sup>, the budget is legally enacted through passage of a resolution.
- v. The Town Commission, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- vi. 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.
- vii. Every appropriation lapses at the close of the fiscal year.

The budgets for governmental funds that were either adopted or amended during the year by the Town Commission were prepared using the modified accrual basis of accounting in accordance with generally accepted accounting principles. Each of the Town's governmental funds have legally adopted budgets.

For the year, the Town exceeded its approved budget in various departments within the General Fund, including Finance (\$1,918), Police (\$22,917), and Fire (\$37,249), and Transfers out (\$613). This was primarily due the necessary budget amendments to reflect debt proceeds and capital outlay not being made for two capital leases entered into during the year. The building department fund exceeded its budget by \$5,705.

(f) **Use of estimates**—Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

(g) **Deposits 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 recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

(h) **Receivables and payables**—Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends. All unpaid property taxes receivable at year end are at least 180 days past due, at which time the applicable property is subject to lien, and penalties and interest are assessed; therefore, these amounts are fully allowed for an no provision for taxes receivable has been made on the Town's financial statements.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **Capital assets**—Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the Town.

Capital assets are defined by the Town as assets with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost, if purchased or constructed. Contributed assets, including donations and easements or other intangible rights of use, are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are only capitalized if they meet the dollar threshold above for capitalization. Maintenance and repairs of capital assets are charged to operating expenses.

Depreciation is reported for the primary government using the straight-line method calculated on a service-life basis to amortize the cost of the asset over their estimated economic useful lives, which are as follows:

Assets	Years
Building Improvements	7-30 years
Buildings	25 – 40 years
Equipment	3-18 years
Infrastructure	20 – 50 years
Leased Property	3-12 years
Vehicles	5-15 years

(j) **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.

(k) **Long-term obligations**—In the government-wide financial statements, long-term debt obligations are reported as liabilities, net of any outstanding premiums or discounts. Debt issuance costs are expensed when paid.

(l) **Deferred outflows/inflows of resources**—In addition to assets, the statement of financial position will, if required, report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the only item in this category consisted of deferred amounts related to pension, as discussed further in Note (10).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the two items in this category are unavailable revenues, which will be recognized as inflows of resources in the period that the amounts become available, and deferred inflows of resources related to pensions, as discussed further in Note (10).

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

(m) **Fund equity**—In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Those classifications are as follows:

*Nonspendable* – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property held for sale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation (i.e. when the government assesses, levies, charges, or otherwise mandates payment of resources from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* – Fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by ordinance of the Town Commission are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

*Assigned* – Fund balance amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance, except for stabilization arrangements. Assignments can be made by the Town Commission or the Town Manager.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

For spendable resources, is the Town’s policy to use its resources in the following order as needed to fund expenses: restricted, committed, assigned, unrestricted.

(n) **Net position flow assumption**—Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to determine amounts reported as restricted and unrestricted net position, it is the Town’s policy to consider restricted net position to have been used before unrestricted net position is applied.

(o) **Implementation of new accounting standards**—At September 30, 2016 and for the year then ended, the Town has implemented Governmental Accounting Standards Board (GASB) *Statement No. 72, Fair Value Measurement and Application*. See Note (4) for the effects of GASB 72 on investment disclosures.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(2) **Reconciliation of Government-Wide and Fund Financial Statement:**

(a) **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**—Following the governmental fund balance sheet is a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. A detailed explanation of these differences is provided in this reconciliation.

(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**—Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is 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. A detailed explanation of these differences is provided in this reconciliation.

(3) **Property Tax Calendar:**

Under Florida law, the assessment of all properties and collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser. State laws regulating tax assessment are designed to ensure a consistent property valuation method statewide and permit municipalities to levy property taxes at a rate of up to 10 mills. For the fiscal year ended September 30, 2016, the millage rate assessed by the Town was 4.1105 per \$1,000.

All property is assessed according to its fair market value on January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State statutes.

The current year taxes for the fiscal year, beginning October 1, are billed in the month of November and are due no later than March 31. On April 1, all unpaid amounts become delinquent and are subject to interest and penalties.

Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, 1% in the month of February, and without discount in March.

The Town recognizes property tax revenues on an accrual basis. Delinquent taxes on real property bear interest of 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. The Town tax calendar is as follows:

Valuation Date:	January 1, 2015
Preliminary Tax Roll Date:	July 1, 2015
Commission Tax Rate Hearings:	September 2015
Levy Date:	November 1, 2015
Due Date:	March 31, 2016
Lien Date:	June 1, 2016

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**(4) Deposits and Investments:**

The Town, for accounting and investment purposes, maintains a pooled noninterest-bearing banking account for substantially all Town funds. Additional accounts are held for various other purposes, or to segregate cash balances for amounts which are restricted or held on behalf of others.

State statutes authorize the Town to invest excess funds in time deposits, obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government, commercial paper, corporate bonds, repurchase agreements and/or the State Board of Administration (SBA) Local-Government Surplus Trust Fund Investment Pool or other investment vehicles authorized by local ordinance.

As of September 30, 2016, all Town deposits were covered by private bank acquired insurance, Securities Investor Protection Corporation (SIPC) insurance, private broker/dealer acquired insurance, Federal Depository Insurance Corporation (FDIC) insurance, and/or the State of Florida collateral pool established under the Florida Security for Public Deposits Act (the Act). The Act established guidelines for qualification and participation by banks and savings associations, procedures for administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to 125% may be required if deemed necessary.

Obligations pledged to secure deposits must be delivered to the State Treasurer, or with the approval of the State Treasurer to a bank, savings association, or trust company provided a power of attorney is delivered to the Treasurer. Under the Act, the Town is authorized to deposit funds only in Qualified Public Depositories.

The Town is a member of Florida PRIME, the Local Government Surplus Funds Trust Fund Investment Pool (the Pool), that is administered by the State Board of Administration of Florida (SBA). This pool is a “2a-7 like” pool, which has the characteristics of a money market fund. Therefore, the fair value of investments held at the State Board of Administration Pool is the same as the fair value of the pooled shares. The Regulatory Oversight of the Local Government Surplus Funds Trust fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules for the State Board of Administration. These rules provide guidance and establish the general procedure for the administration of the Local Government Surplus Funds Trust Fund. The Local Government Surplus Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedure consistent with the requirements for a 2a-7 fund. As of September 30, 2016, the investment pool had a weighted average of 50 days to maturity and was rated AAAM by Standard & Poor’s.

The Town held no assets or investments carried at fair value at September 30, 2016, and subject to the required disclosures of GASB 72.

***Town Investment Portfolio***

As of September 30, 2016, the Town’s governmental investment portfolio is not subject to GASB 72 disclosures and is composed of the following investments:

<u>Investment Type</u>	<u>Credit Quality Rating (S&amp;P)</u>	<u>Carrying Value</u>	<u>Maturities (in Years)</u>		
			<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
SBA funds	AAAM	\$ 425,505	\$ 425,505	-	-

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(4) **Deposits and Investments:** (Continued)

*Interest Rate Risk:* The Town limits its exposure to fair value losses arising from increases in interest rates by limiting the investment of its operating funds in investments with maturities of less than one year. Substantially all of the Town's surplus funds are invested in the Local Government Surplus Trust Fund. Investments held in the Town's Police pension trust fund are generally held to maturity to provide a stable investment interest rate platform which is vital to the projection of actuarial pension costs in the future. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Town's bank deposits are held in noninterest-bearing accounts.

*Credit Risk:* Credit risk is the risk that a debt issuer or other counter-party to an investment will not fulfill its obligations. The Town's portfolio is held entirely with public depositories and is invested in SBA funds, as described above.

*Concentration of Credit Risk:* In addition to describing the credit risk of investments in the portfolio, governmental entities will need to disclose the concentration of credit risk with a single issuer, if 5 or more percent of the total assets of the portfolio are invested with one issuer. The Town's policy limits certain type of investments to no more than 5% of the total portfolio. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements.

*Custodial Credit Risk:* All demand deposits are held with qualified public depositories, as defined above. In the case of investments, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2016, the Town's investment of \$425,505 in SBA funds are backed by the full faith and credit of the State of Florida, or explicitly guaranteed by the State of Florida.

***Municipal Police Officers' Retirement Trust Fund Investment Portfolio***

The Municipal Police Officers' Retirement Trust Fund has adopted an investment policy which authorizes the pension manager to invest in equities, fixed income investments, money market funds, and pooled funds.

The Plan is subject to using fair value measurement guidelines established by GASB Statement No. 72. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(4) **Deposits and Investments:** (Continued)

The following chart shows the Municipal Police Officers' Retirement Trust Fund investment accounts by investment portfolios and their respective maturities (in years) and fair value measurement levels:

<b>Investment Type</b>	<b>Carrying Value</b>	<b>Maturities (in years) Less Than 1</b>	<b>Credit Rating Range (S&amp;P)</b>	<b>Fair Value Hierarchy Classification</b>
Mutual funds - fixed income	\$ 885,613	\$ 885,613	BBB	Level 1
Common stock	687,852	687,852	NR	Level 1
Foreign stock	27,049	27,049	NR	Level 1
Mutual funds – equity	1,053,894	1,053,894	NR	Level 1
Exchange-traded investment trusts	22,773	22,773	NR	Level 1
Total Portfolio	<u>\$ 2,677,181</u>	<u>\$ 2,677,181</u>		

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. The established performance objectives of the Pension Plan require investment maturities to provide sufficient liquidity to pay obligations as they become due. At September 30, 2016, all investments were held in cash or other assets that could be liquidated at any time.

*Credit Risk:* Credit risk is the risk that a debt issuer or other counter-party to an investment will not fulfill its obligations. The Pension Plan utilizes portfolio diversification in order to limit investments to the highest rated securities as rated by nationally recognized rating agencies. All investments are rated within the investment policy guidelines at September 30, 2016.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Police Pension trust fund policy does not allow more than five (5) percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company. At September 30, 2016, the investment portfolios met these limitations.

*Custodial Credit Risk:* Custodial credit risk is the risk that the Town may not recover cash and investments held by another party in the event of financial failure. Custodial credit risk is limited since investments are held in independent custodial safekeeping accounts or mutual funds.

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At September 30, 2016, the investment portfolio had no foreign investments.

(5) **Accounts Receivable:**

The Town's receivables consists \$162,411 at September 30, 2016, all of which was included in the general fund and governmental activities. There was no allowance for doubtful accounts at September 30, 2016.

Of the above amount, \$84,835 is due from the Melbourne Beach Volunteer Fire Department, Inc. for their share of the total purchase price and debt requirements for a vehicle (50-percent share) and fire truck (100-percent share). These receivables are scheduled out relative to the respective capital lease obligations and were not received within 60 days of year-end and therefore have been considered unavailable and recorded as deferred inflows in the general fund.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(6) Capital Assets:**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated –				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	205,126	-	(205,126)	-
Total capital assets, not being depreciated	<u>1,102,868</u>	<u>-</u>	<u>(205,126)</u>	<u>897,742</u>
Capital assets, being depreciated –				
Buildings and improvements	3,656,715	68,448	(55,716)	3,669,447
Equipment	1,770,509	225,324	(103,363)	1,892,470
Infrastructure	5,848,555	220,826	(1,326)	6,068,055
Total capital assets, being depreciated	<u>11,275,779</u>	<u>514,598</u>	<u>(160,405)</u>	<u>11,629,972</u>
Less: accumulated depreciation	<u>(4,021,484)</u>	<u>(461,111)</u>	<u>149,420</u>	<u>(4,333,175)</u>
Total capital assets, being depreciated, net	<u>7,254,295</u>	<u>53,487</u>	<u>(10,985)</u>	<u>7,296,797</u>
Governmental activities capital assets, net	<u>\$ 8,357,163</u>	<u>\$ 53,487</u>	<u>\$ (216,111)</u>	<u>\$ 8,194,539</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General governmental	\$ 201,157
Public safety	118,463
Physical environment	61,946
Culture and recreation	79,545
Total depreciation expense - governmental activities	<u>\$ 461,111</u>

**(7) Capital Leases:**

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

Asset:	
Equipment	\$ 612,883
Accumulated depreciation	(343,051)
Net book value of leased assets	<u>\$ 269,832</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 66,566	\$ 16,383	\$ 82,949
2018	59,657	12,509	72,166
2019	51,743	9,106	60,849
2020	42,234	6,242	48,476
2021	44,459	4,017	48,476
2022	31,324	1,676	33,000
Total	<u>\$ 295,983</u>	<u>\$ 49,933</u>	<u>\$ 345,916</u>

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**(8) Long-Term Debt:**

Notes and bonds payable at September 30, 2016, are comprised of the following obligations:

Series 2005B Florida Municipal Loan Council Revenue Refunding Bonds, dated May 1, 2005, originally issued to partially defease the Florida Municipal Loan Council Revenue Bonds, Series 1999B, due in payments of principal plus interest ranging from 3.00% to 5.00% semiannually on May 1 and November 1 each year until final maturity on November 1, 2029.	\$ 1,255,000
Series 2009 Stormwater Improvement note payable, dated August 20, 2009, due in payments of principal plus interest at 4.23% semiannually on January 1 and July 1 through July 1, 2028. Repayment of loan balance is secured by a pledge of real property ad valorem tax revenues assessed at 0.9999 mills on all property within the Town.	2,528,000
Total long-term debt, governmental activities	<u>\$ 3,783,000</u>

The Town was in compliance with all applicable debt covenants as of and for the year ended September 30, 2016.

Annual debt service requirements to maturity for the Town's notes and bonds payable are as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 231,000	\$ 168,059	\$ 399,059
2018	243,000	157,662	400,662
2019	251,000	146,845	397,845
2020	263,000	135,563	398,563
2021	276,000	123,736	399,736
2022-2026	1,556,000	421,752	1,977,752
2027-2031	963,000	79,032	1,042,032
Total	<u>\$ 3,783,000</u>	<u>\$ 1,232,649</u>	<u>\$ 5,015,649</u>

For the fiscal year ended September 30, 2016, a summary of the long-term liability transactions for the Town is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Notes and bonds payable	\$ 4,003,000	\$ -	\$ (220,000)	\$ 3,783,000	\$ 231,000
Les deferred amounts:					
Original issue premium	26,816	-	(3,123)	23,693	-
Original issue (discount)	(56,473)	-	6,578	(49,895)	-
Total notes and bonds payable	<u>3,973,343</u>	<u>-</u>	<u>(216,545)</u>	<u>3,756,798</u>	<u>231,000</u>
Capital leases	295,223	77,092	(76,332)	295,983	66,566
Compensated absences	157,826	73,538	(74,641)	156,723	78,362
Governmental activities –					
Total long-term liabilities	<u>\$ 4,426,392</u>	<u>\$ 150,630</u>	<u>\$ (367,518)</u>	<u>\$ 4,209,504</u>	<u>\$ 375,928</u>

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**(9) Interfund Loans, Advances, Fees and Transfers:**

The outstanding balances between funds are short-term loans to cover short-term cash flow needs and expected to be repaid in full over the course of the next fiscal year. Individual fund interfund receivables and payables for the primary government at September 30, 2016, are comprised of the following:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Governmental Activities:		
General Fund:		
Building Department Fund	\$ 26,174	\$ -
Building Department Fund:		
General Fund	-	26,174
Total – All Funds	<u>\$ 26,174</u>	<u>\$ 26,174</u>

For the year ended September 30, 2016, interfund transfers consisted of the following:

	<u>Transfer From</u>	<u>Transfer To</u>
Governmental Activities:		
General Fund:		
Building Department Fund	\$ 18,000	\$ 178,548
Debt Service Fund		
Capital Projects Fund		
Building Department Fund:		
General Fund	-	18,000
Debt Service Fund:		
General Fund	126,548	-
Capital Projects Fund:		
General Fund	52,000	-
Total – All Funds	<u>\$ 196,548</u>	<u>\$ 196,548</u>

The transfer from the building department fund to the general fund represents a fee for services provided. The transfer from the general fund to the debt service fund represents the requirements for debt service. The transfer from the general fund to the capital projects fund represents capital expenditures paid for by the general fund.

**(10) Employees' Retirement Plans and Other-Postemployment Benefits:**

**A. Deferred Compensation Plan**

The Town offers employees' participation in an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by Nationwide Retirement Solutions, P.O. Box 182797, Columbus, OH, 43218-2797. Annual contributions are limited to the amount allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan. The Town may also contribute to the plan for participants; these contributions vest at the time such contributions are made to the plan. For the year ended September 30, 2016, employee contributions to the 457 plan were \$4,460. Employer contributions totaled \$4,866 for the year ended September 30, 2016.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

**B. Florida Retirement System**

**Plan Description and Administration**

The Town participates in the Florida Retirement System (FRS), a multiple-employer, cost sharing defined public employee retirement system which covers all of the Town's full-time employees. The System is a noncontributory retirement plan, administered by the State of Florida, Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

In addition, all regular employees of the Town are eligible to enroll as members of the Retiree Health Insurance Subsidy (HIS) Program. The HIS is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received 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. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

**Benefits Provided and Employees Covered**

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments. Benefits under the 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.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Employees may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, DROP, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

**Financial Statements**

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850) 413-5511; or at the Department's Web site ([www.myfloridacfo.com](http://www.myfloridacfo.com)). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from:

Florida Department of Management Services  
 Division of Retirement, Research and Education Services  
 P.O. Box 9000  
 Tallahassee, FL 32315-9000

**Contributions**

The Town participates in certain classes of FRS membership. Each class has descriptions and contribution rates in effect at September 30, 2016, as follows (contribution rates are in agreement with the actuarially determined rates):

FRS Membership Plan & Class	Employee Contribution Rate	Employer Contribution Rate
Regular Class	3.00%	7.52%

Current-year employer HIS contributions were made at a rate of 1.66% of covered payroll.

Actual contributions made for Town employees participating in FRS and HIS for the each of last three fiscal years ended September 30 were as follows:

	2016	2015	2014
Town Contributions – FRS	\$ 20,010	\$ 14,076	\$ 11,962
Town Contributions – HIS	5,845	4,571	2,950
Employee Contributions – FRS	10,594	10,883	7,375

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

**Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions**

At September 30, 2016, the Town reported a liability of \$280,021 for its proportionate share of the net pension liability, \$142,594 related to FRS and \$137,427 to HIS. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, as actuarially determined. At June 30, 2016 and June 30, 2015, the Town's FRS proportion was 0.000564726% and 0.000570663%, respectively. At June 30, 2016 and June 30, 2015, the Town's HIS proportion was 0.001179170% and 0.001038277%, respectively. For the year ended September 30, 2016, the Town's recognized pension expense of \$22,103 from FRS and \$15,336 from HIS, for a grand total of \$37,439.

*Deferred outflows/inflows related to pensions:*

At September 30, 2016, 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	\$ 10,918	\$ (1,328)	\$ -	\$ (313)
Changes of assumptions	8,626	-	21,566	-
Net difference between projected and actual investment earnings	36,859	-	69	-
Change in Town's proportionate share	2,614	(1,091)	22,929	(583)
Contributions subsequent to measurement date	4,854	-	1,389	-
	<u>\$ 63,871</u>	<u>\$ (2,419)</u>	<u>\$ 45,953</u>	<u>\$ (896)</u>

The above amounts for deferred outflows of resources for contributions related to pensions resulting from Town contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

2017	\$ 15,682
2018	15,682
2019	30,039
2020	23,183
2021	9,576
Thereafter	6,104
Total	<u>\$ 100,266</u>

*Actuarial assumptions:*

The Actuarial assumptions for both defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because HIS is funded on a pay-as-you-go basis, no experience study has been completed.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 2.85%. Both the discount rate and the long-term expected rate of return used for FRS investments is 7.60%. The plan's 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 HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 2.85% was used to determine the total pension for the program. This rate decreased from the prior year rate, which was 3.80%. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

*Long-term expected rate of return:*

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2016, the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman's capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Long-Term Arithmetic Expected Rate of Return
Cash	1.0%	3.0%
Fixed income	18.0%	4.7%
Global equities	53.0%	8.1%
Real estate	10.0%	6.4%
Private equity	6.0%	11.5%
Strategic investments	12.0%	6.1%
Total	100.0%	

*Sensitivity of the net pension liability to changes in the discount rate:*

The following presents the proportionate shares of the FRS and HIS net pension liability of the Town calculated using the current discount rates, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

Plan	Current Discount Rate	NPL with 1% Decrease	NPL at Current Discount Rate	NPL with 1% Increase
FRS	7.60%	\$ 262,525	\$ 142,594	\$ 42,767
HIS	2.85%	157,660	137,427	120,635

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

**C. Municipal Police Officers' Retirement Trust Fund**

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

**Plan Description and Administration**

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. 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. Pension plan data is provided from the respective actuarial reports as of October 1, 2015.

**Benefits Provided and Employees Covered**

The Plan provides retirement, disability and death benefits to plan participants and beneficiaries. No cost of living adjustments are provided to retirees and beneficiaries. The Plan's Board of Trustees has contracted with an actuary to provide an actuarial valuation of each plan as of October 1 of every other year. Current membership in the Plan was composed of the following at October 1, 2015:

Inactive participants	1
Active participants	9
Retired participants	<u>7</u>
Total current membership	<u><u>17</u></u>

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.

**Financial Statements**

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The government's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Separate financial statements have not been prepared for the Plan.

**Contributions**

The participant contribution rates for the Plan are established by and may be amended by the Town Commission. Employees covered under the plan are required to make contributions of 5% of their compensation. The Town's annual required contribution for the current year was determined as part of the October 1, 2015 actuarial valuations. The Town is required under the Florida Protection of Public Employee Retirement Benefits Act to contribute a payment which represents annual normal cost plus amortization of the unfunded actuarial accrued liability over various periods as prescribed by law. The Town's contributions (and if applicable, any liquidations of a net pension obligation) to the Plan are funded by the General Fund.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

The State of Florida also makes contributions to the Plan in accordance with Chapter 185 of the Florida Statutes as amended by the State Legislature. This contribution by the State of Florida is first recognized as revenue in the General Fund before being transferred to the Pension Fund. The Town's actual annual contribution for the plan is determined by subtracting estimated employee contributions and actual State of Florida contributions from the total annual required contribution as determined by the actuary.

Contributions to the Plan for the year ended September 30, 2016, were as follows:

Employee contributions	\$	23,298
Town contributions		186,596
State contributions		32,271
Total contributions	\$	<u>242,165</u>

**Investment Policy**

See Note (4) for additional discussion of the investment policies for the Plan.

**Net Pension Liability**

At September 30, 2016, the components of the net pension liability for the Plan were as follows:

Total pension liability	\$	3,630,284
Plan fiduciary net position		<u>(2,757,291)</u>
Net pension liability	\$	<u>872,993</u>
Plan fiduciary net position as percentage of total pension liability		75.95%

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

Inflation		2.50%
Salary increases		6.00%
Discount rate		8.00%
Investment rate of return		8.00%

Mortality rates for the Plan were based on the RP-2000 Mortality Table with no projection. The most recent actuarial experience study used to review the other significant assumptions was March 10, 2008.

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 investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Arithmetic Expected Rate of Return</u>
Domestic Equity	55%	7.50%
International Equity	10%	8.50%
Broad Market Fixed Income	30%	2.50%
TIPS	5%	2.50%
Total	<u>100.0%</u>	

*Discount rate:*

The discount rate used to measure the total pension liability for the pension plan was 8.00%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that Town 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.

*Changes in net pension liability:*

Changes in the plan's net pension liability were as follows:

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a - b)</u>
Beginning Balance	\$ 3,467,690	\$ 2,570,543	\$ 897,147
Changes for year:			
Service cost	90,773	-	90,773
Interest	274,273	-	274,273
Differences between expected/actual experience	(80,473)	-	(80,473)
Change in assumptions	138,126	-	138,126
Contributions – employer	-	186,596	(186,596)
Contributions – state	-	32,271	(32,271)
Contributions – employee	-	23,298	(23,298)
Net investment income	-	221,491	(221,491)
Benefit payments, including refunds	(260,105)	(260,105)	-
Administrative expenses	-	(16,803)	16,803
Net changes	<u>162,594</u>	<u>186,748</u>	<u>(24,154)</u>
Ending Balance	<u>\$ 3,630,284</u>	<u>\$ 2,757,291</u>	<u>\$ 872,993</u>

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

*Sensitivity of the net pension liability to changes in the discount rate:*

The following presents the net pension liability (asset) of the Town calculated using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

<u>Town's Net Pension Liability (Asset)</u>	<u>1% Decrease 7.00%</u>	<u>Current Discount Rate 8.00%</u>	<u>1% Increase 9.00%</u>
Municipal Police Officers' Retirement Trust Fund	\$ 1,259,023	\$ 872,993	\$ 547,123

*Money-weighted rate of return:*

For the year ended September 30, 2016, the annual money-weighted rate of return on Plan investments, net of pension plan investment expense was as follows:

Annual money-weighted rate of return	8.14%
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The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the Town recognized pension expense of \$197,082 in the Plan.

At September 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ (62,332)
Changes of assumptions	103,595	-
Net different between projected and actual investment earnings	98,071	-
	\$ 201,666	\$ (62,332)

Amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

2017	\$ 42,785
2018	42,787
2019	57,209
2020	(3,447)
Total	\$ 139,334

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

**D. Other Post-Employment Benefits (OPEB)**

The Town of Melbourne Beach, Florida Post-Employment Benefits Plan is a single-employer benefit healthcare plan administered by the Town. Pursuant to Section 112.0801, Florida Statutes, the Town is required to permit participation in the Plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Eligible participants include all regular employees of the Town who retire from active service under one of the pension plans sponsored by the Town. Under certain conditions, eligible individuals also include spouses and dependent children. The Plan does not issue a publicly available financial report.

The Town's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB activity for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation to the plan based on the most recent actuarial valuation dated October 1, 2013:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 6,000	\$ 6,000	\$ 5,000
Interest on Net OPEB Obligation	-	-	-
Adjustment to Annual Required Contribution	-	-	-
Annual OPEB Cost	6,000	6,000	5,000
Town Contributions Made	(6,000)	(6,000)	(6,000)
Increase (Decrease) in Net OPEB Obligation	-	-	(1,000)
Net OPEB Obligation (beginning of year)	3,000	3,000	4,000
Net OPEB Obligation (end of year)	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>

Three-year trend information is summarized as follows:

<u>Plan Fiscal Year Ended September 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 6,000	100%	\$ 3,000
2015	6,000	100%	3,000
2014	5,000	120%	3,000

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(10) **Employees' Retirement Plans and Other-Postemployment Benefits:** (Continued)

The funded status of the plan as of October 1, 2013, the most recent valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	26,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	26,000
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (Active plan members)	\$	541,000
UAAL as a percentage of covered payroll		4.80%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost. Amounts determined regarding the funded status of the plan and the annual required contributions of the Town are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The calculations are based on the type of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of cost between the Town and the plan member at that point. The actuarial method and assumptions used include techniques that 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. Significant methods and assumptions were as follows:

Actuarial Valuation Date		October 1, 2013
Actuarial Cost Method		Projected unit credit
Amortization Method		Level dollar, open
Remaining Amortization Period		10 years
Actuarial Assumptions:		
Investment Rate of Return with Inflation		4.00%
Health Care Inflation		8.00% grading to 5.50% for 2019

It should be noted that the percent of Annual OPEB Cost contributed is based upon actuarial calculations regarding the Town's and State's contribution. The Town's contribution is dependent upon the estimated state contributions that are not known and received at the end of the fiscal year. The Town has typically used the general fund to liquidate net pension obligations.

Additional trend information related to the retirement plan is presented in the required supplementary information, as listed in the table of contents. The information is presented to enable the reader to assess the progress made by the Town retirement plans in accumulating sufficient assets to pay retirement benefits as they become due.

No actuarial accrued liability has been calculated for the Plan as the Plan utilizes the aggregate actuarial cost method.

(11) **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 for which the Town carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in coverage from the prior year.

The Town is engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of the Town's legal counsel, no legal proceedings are pending which would have a material adverse effect on the financial position or results of operations of the Town.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(12) **Commitments and Contingencies:**

The Town is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2016. The outcomes of established claims are included in these financial statements. In the opinion of the Town's legal counsel, no legal proceedings are pending or threatened against the Town which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

(13) **Recent Accounting Pronouncements:**

The Governmental Accounting Standards Board ("GASB") has issued several pronouncements that have effective dates that may impact future financial statements. Listed below are pronouncements with required implementation dates effective for subsequent fiscal years that have not yet been implemented. Management has not currently determined what, if any, impact implementation of the following will have on the Town's financial statements:

- (a) GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, in June 2015, which establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. GASB 74 is intended to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016.
- (b) GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015, which establishes standards for recognizing and measuring liabilities, deferred outflows or resources, deferred inflows of resources, and expense/expenditures. GASB 75 seeks to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017.
- (c) GASB issued Statement No. 77, *Tax Abatement Disclosures*, in August 2015. GASB 77 requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; (2) the gross dollar amount of taxes abated during the period; and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The provisions in GASB 77 are effective for periods beginning after December 15, 2015.
- (d) GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*, in January 2016, which amends the blending requirements for the financial statement presentation of component units of all state and local governments. GASB 80 enhances the comparability of financial statements among governments. The provisions in GASB 80 are effective for fiscal years beginning after June 15, 2016.
- (e) GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, in March 2016, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 enhances comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The provisions in GASB 81 are effective for fiscal years beginning after December 15, 2016.

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

(13) **Recent Accounting Pronouncements:** (Continued)

- (f) GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, in March 2016. GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in GASB 82 are effective for periods beginning after either June 15, 2016 or June 15, 2017, if certain assumptions are met.
- (g) GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, in November 2016. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs), which are legally enforceable liabilities associated with the retirement of a tangible capital asset. The provisions in GASB 81 are effective for periods beginning after June 15, 2018.
- (h) GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB 84 improves guidance regarding the identification and reporting of fiduciary activities. The provisions in GASB 84 are effective for periods beginning after December 15, 2018.
- (i) GASB issued Statement No. 85, *Omnibus 2017*, in March 2017. GASB 85 improves guidance addressing several different accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements. The provisions in GASB 85 are effective for periods beginning after June 15, 2017.

(14) **Deficit Fund Balance:**

At September 30, 2016, the Building Department Fund reported a fund balance deficit of (\$30,534). This cumulative deficit was the result of expenditures exceeding revenues in the current year and is expected to be recovered from subsequent periods' revenues.

**TOWN OF MELBOURNE BEACH, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - OPEB  
SEPTEMBER 30, 2016**

**Other Post Employment Benefit Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--Entry Age (b)	Unfunded or (Assets in Excess of) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded or (Assets in Excess of) AAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2010	\$-	\$45,000	\$45,000	0.00%	\$474,000	9.50%
10/1/2013	-	26,000	26,000	0.00%	541,000	4.80%

**TOWN OF MELBOURNE BEACH, FLORIDA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB  
 SEPTEMBER 30, 2016**

<b>Other Post-Employment Benefit Plan</b>				
<b>Year Ended September 30</b>	<b>Annual Required Contribution</b>	<b>Town Contribution</b>	<b>Percentage Contribution</b>	
2016	\$ 6,000	\$ 6,000	100	
2015	6,000	6,000	100	
2014	5,000	6,000	120	
2013	6,000	6,000	100	
2012	7,000	7,000	100	

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND**  
**SEPTEMBER 30, 2016**

<b>For the year ended September 30,</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total Pension Liability			
Service cost	\$ 90,773	\$ 95,129	\$ 92,542
Interest	274,273	266,454	257,604
Differences between expected/actual experience	(80,473)	(3,954)	-
Changes of assumptions	138,126	-	-
Benefit payments	(260,105)	(250,963)	(233,262)
Net change in total pension liability	162,594	106,666	116,884
Total pension liability – beginning	3,467,690	3,361,024	3,244,140
Total pension liability – ending (a)	<u>\$ 3,630,284</u>	<u>\$ 3,467,690</u>	<u>\$ 3,361,024</u>
 Total Fiduciary Net Position			
Contributions – employer	\$ 186,596	\$ 222,353	\$ 200,907
Contributions – state	32,271	-	32,044
Contributions – employee	23,298	22,464	21,403
Net investment income	221,491	(22,583)	255,971
Benefit payments	(260,105)	(250,963)	(233,262)
Administrative expense	(16,803)	(23,280)	(8,111)
Net change in plan fiduciary net position	186,748	(52,009)	268,952
Plan fiduciary net position – beginning	2,570,543	2,622,552	2,353,600
Plan fiduciary net position – ending (b)	<u>\$ 2,757,291</u>	<u>\$ 2,570,543</u>	<u>\$ 2,622,552</u>
 Net pension liability – ending (a) - (b)	<u>\$ 872,993</u>	<u>\$ 897,147</u>	<u>\$ 738,472</u>
 Plan fiduciary net position as a percentage of the total pension liability	75.95%	74.13%	78.03%
 Covered payroll	\$ 465,956	\$ 467,561	\$ 428,060
 Net pension liability as a percentage of covered payroll	187.36%	191.88%	172.52%

**TOWN OF MELBOURNE BEACH, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND  
SEPTEMBER 30, 2016**

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Contributions in Relation to ADC</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Contributions as Percentage of Employee Payroll</u>
2016	\$ 218,394	\$ 218,867	\$ (473)	\$ 465,956	46.97%
2015	222,353	222,353	-	467,561	47.56%
2014	232,950	232,950	-	428,060	54.42%

Notes to Schedule:

Valuation Date: 10/01/2014

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

Methods and assumptions used to determine contribution rates:

Funding Method:	Entry age normal actuarial cost method
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period:	27 years (as of 10/1/2013)
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:	2.00% per year.
Salary Increases:	6.00% per year.
Interest Rate:	8.00% per year, compounded annually, net of investment-related expenses.
Payroll Growth:	2.00% for amortization of al UAAL bases prior to the 2011 benefit change. All bases after that point will be amortized using level-dollar amortization.
Retirement Age:	Earlier of: 1) age 55 and 10 years of credited service, or 2) age 52 and 20 years of credited service, regardless of age. Also, any member who has reached Normal Retirement is assumed to continue employment for one additional year.
Termination Rates:	See table below.
Disability Rates	See table below.
Mortality:	RP-2000 Table with no projection – Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years).

<u>Age</u>	<u>% Becoming Disabled During the Year</u>	<u>% Terminating During the Year</u>
20	0.14%	17.2%
30	0.18%	15.0%
40	0.30%	8.2%
50	1.00%	1.7%

**TOWN OF MELBOURNE BEACH, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENT RETURNS  
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND  
SEPTEMBER 30, 2016**

<u>For the Year Ended September 30</u>	<u>Annual Money- Weighted Rate of Return</u>
2016	8.64%
2015	-0.87%
2014	10.99%

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – FRS/HIS**  
**SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Florida Retirement System (FRS)</b>			
Proportion of the net pension liability (NPL)	0.000564726%	0.000570663%	0.000546111%
Proportionate share of the NPL	\$ 142,594	\$ 73,709	\$ 33,581
Covered payroll	352,113	362,777	245,833
Proportionate share of the NPL as percentage of covered payroll	40.50%	20.32%	13.66%
Plan fiduciary net position as a percentage of the NPL	84.88%	92.00%	96.09%
<b>Health Insurance Subsidy Program (HIS)</b>			
Proportion of the net pension liability (NPL)	0.001179170%	0.001038277%	0.000861064%
Proportionate share of the NPL	\$ 137,427	\$ 105,888	\$ 80,512
Covered payroll	352,113	362,777	245,833
Proportionate share of the NPL as percentage of covered payroll	39.03%	28.19%	32.57%
Plan fiduciary net position as a percentage of the NPL	0.97%	0.50%	0.99%

**TOWN OF MELBOURNE BEACH, FLORIDA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS – FRS/HIS  
SEPTEMBER 30, 2016**

For the Plan Year ended June 30,	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Florida Retirement System (FRS)</b>			
Contractually required contribution	\$ 20,010	\$ 14,076	\$ 11,962
Contributions in relation to contractually required contribution	<u>20,010</u>	<u>14,076</u>	<u>11,962</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 352,113	\$ 362,777	\$ 245,833
Contributions as percentage of covered payroll	5.68%	3.88%	4.87%
<b>Health Insurance Subsidy Program (HIS)</b>			
Contractually required contribution	\$ 5,845	\$ 4,571	\$ 2,950
Contributions in relation to contractually required contribution	<u>5,845</u>	<u>4,571</u>	<u>2,950</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 352,113	\$ 362,777	\$ 245,833
Contributions as percentage of covered payroll	1.66%	1.26%	1.20%

**TOWN OF MELBOURNE BEACH, FLORIDA  
COMBINING BALANCE SHEET  
NONMJAOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	<u>Law Enforcement Forfeiture</u>	<u>Police Education</u>	<u>Police Donations</u>	<u>Building Education</u>	<u>Old Town Hall</u>	<u>Stormwater Utility</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,429	\$ 9,499	\$ 3,670	\$ 1,308	\$ 16,016	\$ 225,574	\$ 257,496
Total assets	<u>\$ 1,429</u>	<u>\$ 9,499</u>	<u>\$ 3,670</u>	<u>\$ 1,308</u>	<u>\$ 16,016</u>	<u>\$ 225,574</u>	<u>\$ 257,496</u>
<b>LIABILITIES</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>FUND BALANCES</b>							
Restricted for:							
Law enforcement	\$ 1,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,429
Law enforcement education	-	9,499	3,670	-	-	-	13,169
Building Department Education	-	-	-	1,308	-	-	1,308
Old Town Hall	-	-	-	-	16,016	-	16,016
Stormwater utility	-	-	-	-	-	225,574	225,574
Total fund balances	<u>\$ 1,429</u>	<u>\$ 9,499</u>	<u>\$ 3,670</u>	<u>\$ 1,308</u>	<u>\$ 16,016</u>	<u>\$ 225,574</u>	<u>\$ 257,496</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<b>Law Enforcement Forfeiture</b>	<b>Police Education</b>	<b>Police Donations</b>	<b>Building Education</b>	<b>Old Town Hall</b>	<b>Stormwater Utility</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>							
Licenses and permits	\$ -	\$ -	\$ -	\$ 371	\$ -	\$ -	\$ 371
Charges for services	-	-	-	-	-	54,195	54,195
Fines and forfeitures	-	593	-	-	-	-	593
Miscellaneous	-	-	105	-	1,428	-	1,533
Total revenues	<u>-</u>	<u>593</u>	<u>105</u>	<u>371</u>	<u>1,428</u>	<u>54,195</u>	<u>56,692</u>
<b>Expenditures</b>							
Current:							
Public safety	-	1,700	-	-	-	-	1,700
Parks and recreation	-	-	-	-	375	-	375
Physical environment	-	-	-	-	-	27,858	27,858
Capital outlay	-	-	1,680	-	-	-	1,680
Total expenditures	<u>-</u>	<u>1,700</u>	<u>1,680</u>	<u>-</u>	<u>375</u>	<u>27,858</u>	<u>31,613</u>
<b>Net change in fund balances</b>	<u>-</u>	<u>(1,107)</u>	<u>(1,575)</u>	<u>371</u>	<u>1,053</u>	<u>26,337</u>	<u>25,079</u>
<b>Fund balances, beginning of year</b>	1,429	10,606	5,245	937	14,963	199,237	232,417
<b>Fund balances, end of year</b>	<u>\$ 1,429</u>	<u>\$ 9,499</u>	<u>\$ 3,670</u>	<u>\$ 1,308</u>	<u>\$ 16,016</u>	<u>\$ 225,574</u>	<u>\$ 257,496</u>

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

**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***

To the Honorable Mayor, Town Commission, and Town Manager,  
Town of Melbourne Beach, Florida:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 12, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

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

**2016-001 – Segregation of Duties (Third-Year Repeat Comment)**

We noted the Finance Manager to be responsible for overlapping aspects of various key financial processes, including, but not limited to, accounts payable and payroll processing; the preparation, approval, and posting of journal entries; and bank reconciliations. While this is not uncommon for

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an entity of the Town's size, this presents a greater risk of error and/or misappropriation due to the lack of segregation of duties. We recommend the Town consider opportunities to achieve a greater level of segregation of duties over these key financial processes by segregating key functions to other individuals of departments (such as moving human resources function from Finance Manager to Town Clerk so that payroll and HR functions are not handled by the same position).

#### **2016-002 – Investment Account Controls**

We noted the Town does not have a formal understanding of the process and/or policy as it relates to the Town's investment account with the SBA and the movement of monies to or from this account. To ensure adequate controls are in place and the risk of error and/or fraud is mitigated to a low level, we recommend the Town obtain and understanding of the process and implement a formal policy and set of internal controls to safeguard this account and any transactions therein.

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 deficiency described below to be a significant deficiency:

#### **2016-003 – Reconciliation of Subsidiary Ledgers**

We noted no formal process to be in place related to the regular reconciliation of significant account balances to the respective subsidiary ledgers for items such as accounts receivable and accounts payable. While a year-end analysis identified no significant discrepancies, we recommend management reconcile these accounts on no less than a monthly basis to help provide for proper identification of any errors or improper activity on a timely basis.

#### **2016-004 Prior Period Adjustment**

Prior year governmental activities showed a \$1.2 million amount as restricted for community development projects, related to unspent stormwater bond proceeds. However, these amounts were already incorporated into the net investment in capital assets classification of equity, and were double-counted in this group, resulting in understated unrestricted net position of the Town's governmental activities by the same amount. We recommend all equity classifications at year-end be reviewed and stated in accordance with generally accepted accounting principles.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town'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 the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

#### **2016-005 – Expenditures in Excess of Appropriations (Third-Year Repeat Comment)**

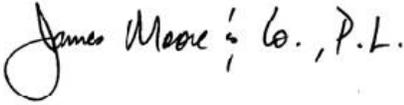
We noted the Town's general fund and building department fund each had expenditures in certain departments in excess of the approved budget. We recommend the Town ensure all budget amendments are properly tracked and approved at the department level and for any final adjustments to be approved within 60 days of year-end to maintain budgetary compliance.

## **Town of Melbourne Beach, Florida's Response to Findings**

The Town's responses to the findings identified in our audit are described starting on page 63. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Daytona Beach, Florida  
May 12, 2017

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED  
BY CHAPTER 10.550, RULES OF THE STATE OF FLORIDA  
OFFICE OF THE AUDITOR GENERAL**

To the Honorable Mayor, Town Commission, and Town Manager,  
Town of Melbourne Beach, Florida:

**Report on the Financial Statements**

We have audited the financial statements of the Town of Melbourne Beach, Florida, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated May 12, 2017.

**Auditor's Responsibility**

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

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated May 12, 2017, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Two findings and recommendations from the prior year's audit (ML 2014-001 and ML 2014-002) have been repeated for two or more years and have not yet been fully corrected. The following is a summary of all findings and recommendations reported in our preceding annual financial audit report:

**2014-002 Reconciliation of Cash Accounts** – Corrective action taken.

**2014-003 Receivables and Amounts Due from Other Governments** – Corrective action taken.

**2014-005 Financial Reporting to Management** – Corrective action taken.

**2014-006 Year-End Close of Financial Records and Annual Financial Reporting** – Corrective action taken.

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**ML 2014-001 Segregation of Duties** – Corrective action not taken. See repeat comment 2016-001.

**ML 2014-002 Expenditures in Excess of Appropriations** – Corrective action not taken. See repeat comment 2016-005.

**ML 2015-001 Investment Policy** – Corrective action taken.

**ML 2015-002 Budget Administration (Timeliness)** – Corrective action not taken. See repeat comment at 2016-008.

**ML 2015-003 Dissemination of Police Pension Plan Performance** – Corrective action taken.

**ML 2015-004 Excessive Journal Entries** – Corrective action taken.

### **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 for the primary government of the reporting entity is disclosed in Note 1 of the basic financial statements.

### **Financial Condition**

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Town 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 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's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

### **Annual Financial Report**

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

### **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 noted the following recommendations:

#### **2016-006 – IT Policies and Procedures**

While the Town has formally adopted policies and procedures related to accounting and financial reporting, we noted the Town does not have a formal set of policies and procedures related to information technology. We recommend the Town develop a formal set of policies and procedure

related to information technology in order to finalize a document which includes the designation of responsibilities for the management and maintenance of the Town's information systems, including policies for updates, patches, anti-virus software, backup procedures, etc.

**2016-007 – Capital Asset Inventory**

A physical inventory of fixed assets has not been performed in recent years. We recommend the Town complete an inventory verification of fixed assets to ensure the assets recorded represent the assets in service.

**2016-008 – Adoption of Annual Budget (Repeat Comment)**

We noted the Town's adoption of the FY17 budget contained procedural errors in the initial adoption and it had to be re-advertised and approved subsequent to the start of the fiscal year, resulting in additional costs to the Town. We recommend the Town ensure all applicable statutes are being followed in the annual budget adoption process.

**2016-009 – OPEB Valuation**

In FY16, the Town relied primarily upon an actuarial valuation over other postemployment benefits (OPEB) performed in 2013. GASB 74 will be required to be implemented in FY17 and will encompass significant changes to the overall OPEB reporting requirements. We recommend the Town obtain a new actuarial valuation in preparation for the FY17 financial statements.

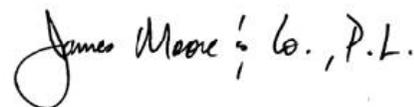
Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the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

**Town of Melbourne Beach, Florida's Response to Findings**

The Town's responses to the findings identified in our audit are described starting on page 63. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 State granting agencies, the Town Commission, management, and others within the Town and is not intended to be and should not be used by anyone other than these specified parties.



Daytona Beach, Florida  
May 12, 2017

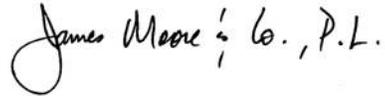
## INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

To the Honorable Mayor, Town Commission, and Town Manager,  
Town of Melbourne Beach, Florida

We have examined the Town of Melbourne Beach, Florida's (the Town) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2016. Management is responsible for the Town's compliance with those requirements. Our responsibility is to express an opinion on the Town'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'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's compliance with specified requirements.

In our opinion, the Town of Melbourne Beach, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.



Daytona Beach, Florida  
May 12, 2017

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## Town of Melbourne Beach

Brevard County's Oldest Beach Community \* Established 1883

May 12, 2017

### **MANAGEMENT'S RESPONSE TO FINDINGS**

2016-001 Segregation of Duties: Due to the limited number of employees in Town Hall there is overlap in duties performed by the Finance Manager. Moving the HR functions to the Town Clerk will be reviewed for feasibility.

2016-002 Investment Account Controls: Finance in conjunction with the Town Manager and Town Clerk, will develop and implement internal controls to enhance the safeguards to the SBA Investment Fund.

2016-003 Reconciliation of Subsidiary Ledgers: Finance will reconcile the subsidiary ledgers on a monthly basis to accounts receivable and accounts payable.

2016-004 Prior Period Adjustment: Finance acknowledges the correction to the classification of the Town's net position for the prior (FY15) year. The Town's current-year net position amounts have been reviewed for financial accuracy and will continue in the future.

2016-005 Expenditures in Excess of Appropriations: Finance will make all appropriate adjustments within 60 days of year-end close to maintain budgetary compliance by department within the general fund.

2016-006 IT Policies and Procedures: Finance will meet with the Town Manager, Town Clerk and Building Clerk to draft policies and procedures related to information technology for the management and maintenance of the Town's information systems.

2016-007 Capital Asset Inventory: Finance will coordinate with the Town Manager and department heads to obtain a complete inventory of the Town's fixed assets; updates will be quarterly or as needed.

2016-008 Adoption of Annual Budget: Finance, the Town Manager and the Town Clerk will make every effort to ensure that the FY18 budget is advertised and approved prior to the end of the fiscal year FY17.

2016-009 OPEB Valuation: The Town will obtain a new actuarial valuation for FY17 and every three (3) years thereafter.

Elizabeth Mascaro  
Finance Manager