



TOWN OF MELBOURNE BEACH, FLORIDA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

TOWN OF MELBOURNE BEACH, FLORIDA

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Year Ended September 30, 2013

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TOWN OF MELBOURNE BEACH, FLORIDA

Town Commission Members and Officials

Year Ended September 30, 2013

Jay Gurecki
Mayor

Jean Marshall
Vice Mayor

Martha Remark
Commission Member

Bill Hoskovec
Town Manager

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, (the "Town") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (pages 9 through 15) and the required supplementary information (pages 51 through 56) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014 on our consideration of the Town of Melbourne Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Melbourne Beach, Florida's internal control over financial reporting and compliance.

Carr Riggs & Ingram, LLC

Melbourne, Florida
March 10, 2014

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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, 2013.

Financial Highlights

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2013 fiscal year by \$6,305,951 (net position). Of this amount, \$4,881,384 is net investment in capital assets while restricted Net Position is \$487,748.
- The total net position increased \$1,511,779, an increase of about 31% from the previous year.
- As of the close of fiscal year 2013, the Town's governmental funds reported combined ending fund balances of \$2,116,141, a decrease of \$1,506,275 in comparison with the prior year. While \$679,624 represents the portion restricted by outside parties, \$1,164,360 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$272,157 of governmental fund balance is nonspendable for current obligations.
- At the end of the 2013 fiscal year, unassigned fund balance for the general fund was \$1,164,360, or 54% of total general fund expenditures.
- The Town's total noncurrent liabilities decreased by \$224,711 during the 2013 fiscal year. This reflects the repayment of outstanding balances for bonds, notes and capital leases, net of an increase in the liability for compensated absences and the addition of a capital lease for equipment.

Overview of the Financial Statements

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

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

The statement of net 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 19-20 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Town maintains eight individual governmental funds, including the General Fund, Capital Projects Fund and six nonmajor funds. The nonmajor funds are the Police Education, Building Education, Old Town Hall, Stormwater Utility, Law Enforcement Forfeiture, and Debt Service funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects Fund, each of which is considered to be a major fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 21-23 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 24-25 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-47 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits, other post-employment benefits to its employees, and budget to actual comparison for the General Fund. Required supplementary information can be found on pages 51-56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on the General Fund budget. Combining and individual fund statements and schedules can be found on pages 58-61 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$6,305,951 at the close of the 2013 fiscal year.

By far the largest portion of the Town's net position (77%) 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 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, \$487,748 represents resources that are subject to external restrictions on how they may be used. These restrictions relate primarily to externally imposed parameters on spending for the \$3.5 million note. The remaining balance of unrestricted net position/(deficit), \$936,819 reflects the fact that available resources are committed already to specific projects of the Town.

	Governmental activities	
	2013	2012
Current and other assets \$	4,055,222	\$ 3,857,249
Capital assets	8,332,579	6,330,838
Total assets	<u>12,387,801</u>	<u>10,188,087</u>
Current liabilities	1,081,877	169,231
Noncurrent liabilities	4,999,973	5,224,684
Total liabilities	<u>6,081,850</u>	<u>5,393,915</u>
Net Position:		
Net investment in		
Capital Assets	4,881,384	3,444,538
Restricted	487,748	2,207,666
Unrestricted	936,819	(858,032)
Total net position	<u>\$ 6,305,951</u>	<u>\$ 4,794,172</u>

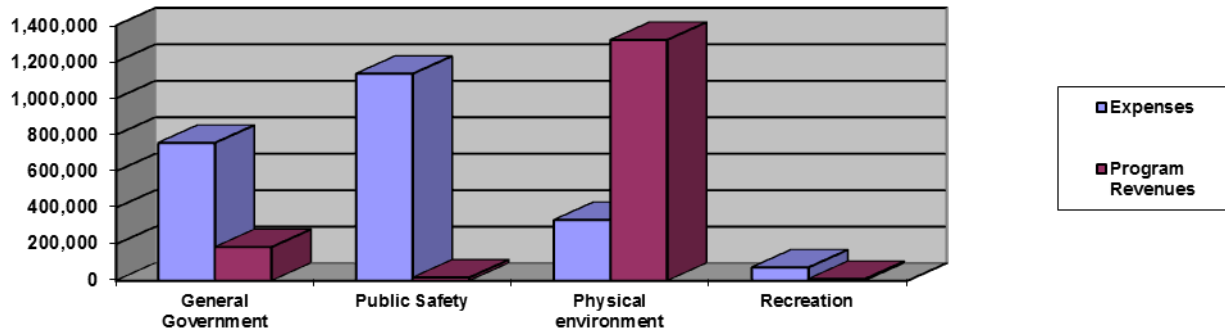
Town's Changes in Net Position

	<u>Governmental activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 130,579	\$ 118,378
Operating grants and contributions	82,604	80,947
Capital grants and contributions	1,321,044	1,000
General revenues:		
Property taxes	1,440,233	1,366,146
Other taxes	776,856	758,608
Shared revenues	209,833	204,059
Unrestricted investment earnings	1,705	3,199
Other	80,800	23,399
Total revenues	<u>4,043,654</u>	<u>2,555,736</u>
Expenses:		
General government	756,337	789,974
Public safety	1,135,428	1,089,680
Recreation	73,274	77,489
Physical environment	333,379	324,211
Interest on long-term debt	233,457	245,044
Total expenses	<u>2,531,875</u>	<u>2,526,398</u>
Increase in net position	1,511,779	29,338
Net position - beginning of year	<u>4,794,172</u>	<u>4,764,834</u>
Net position - end of year	<u>\$ 6,305,951</u>	<u>\$ 4,794,172</u>

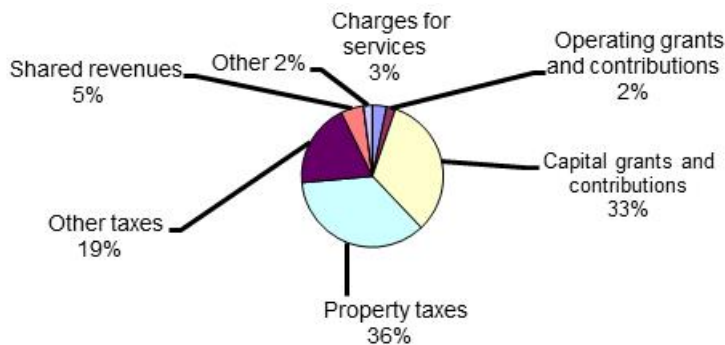
Governmental activities. Governmental activities increased the Town's net position by \$1,511,779. This amount is primarily attributable to increases in general revenues including property taxes, other taxes, and other revenues. These revenue increases are offset by a decrease in unrestricted investment earnings and an increase in expenses for public safety and a decrease in general government, recreation, and interest expenses. Governmental activities increased the Town's assets by \$29,338 in the prior year. Key elements of the difference between the two years change in assets, \$1,482,441, are as follows:

- The Town's total revenues related to governmental activities increased by \$1,487,918 from the prior year. Significant factors that contribute to the increase in revenues are a \$1,320,044 increase in capital grants and contributions due to large grants received in fiscal year 2013 for stormwater projects that were not received in 2012. The increase in revenues was also due to an increase in property taxes for \$74,087, increase in other taxes by \$18,248 and an increase in other revenues totaling \$57,401. This was offset by a decrease in unrestricted investment earnings of \$1,494.
- Expenses related to governmental activities increased by \$5,477 from the prior year. This increase is related to an increase of \$45,748 in public safety expenses as a result of an increase in required contributions for fiscal year 2013 related to the police pension fund and an increase in physical environment expenses of \$9,168. These are offset by a decrease in general government of \$33,637 and a decrease in interest on long-term debt of \$11,587.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year (2013), the Town's governmental funds reported combined ending fund balances of \$2,116,141, a decrease of \$1,506,275 in comparison with the prior year. A portion of fund balance is designated as "nonspendable" to indicate that it is not available for new spending because it has already been committed: 1) \$72,184 for prepaid items and 2) \$199,973 for an advance between the General and Debt Service funds. An additional portion (\$679,624) is restricted for various purposes by outside constraints. The largest restriction (\$487,748) is for stormwater construction. The remaining amount, \$1,164,360, constitutes unassigned fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the Town. At the end of the 2013 fiscal year, unassigned fund balance of the general fund was \$1,164,360, while total fund balance was \$1,441,046. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (excluding transfers). Unassigned fund balance represents 54% of total general fund expenditures, while total fund balance represents 67% of that same amount. The fund balance of the General Fund increased by \$181,205 during the fiscal year. An

excess of revenues over expenditures of approximately \$225,410 was offset by \$147,742 of transfers to the debt service fund for debt payments.

The Capital Projects fund has a fund balance of \$494,952. The net decrease in fund balance during the current year in the capital projects fund was \$1,715,370. The decrease was related to expenditures for various stormwater projects budgeted for the current year.

Nonmajor funds have a combined fund balance of \$180,143. The net increase in the funds of \$27,890 is attributable to the decrease in physical environment expenditures.

General Fund Budgetary Highlights

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

Capital Asset and Long-term Liabilities Administration

Capital assets. The Town’s investment in capital assets for its governmental funds as of September 30, 2013, amounts to \$8,332,579 (net of accumulated depreciation). This represents a net increase of \$2,001,741 or a 32% increase from the previous year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

The additions in the governmental activities are reflected as an increase in infrastructure and construction in progress. Major construction in progress increases include \$2,231,726 for stormwater improvements projects and increase in infrastructure of \$1,231,173 for completed stormwater improvement projects. Additions were offset by deletions of equipment for \$61,485. These additions were also offset by depreciation expense of \$345,215.

Town’s Capital Assets (net of depreciation)

	<u>2013</u>	<u>2012</u>
Land	\$ 897,742	\$ 897,742
Buildings	1,808,224	1,877,125
Improvements other than building	514,523	561,108
Equipment	575,755	593,898
Infrastructure	2,401,536	1,266,719
Construction in progress	2,134,799	1,134,246
Total	<u>\$ 8,332,579</u>	<u>\$ 6,330,838</u>

Additional information on the Town’s capital assets can be found in Note 3-D on page 36 of this report.

Long-term Liabilities. At the end of the 2013 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$4,467,840. Of this debt, \$3,037,840 is secured by a separate ad valorem millage. The remainder of the outstanding debt, \$1,430,000 is secured by specified revenue sources (i.e., revenue bonds).

Town's Outstanding Debt

	2013	2012
Ad Valorem bonds payable	\$ 49,840	\$ 97,083
Revenue bonds payable	1,430,000	1,485,000
Bond premium	33,492	36,919
Deferred loss	(69,916)	(77,133)
Note payable	2,988,000	3,129,000
Capital leases	437,889	435,150
Net OPEB Obligation	4,000	4,000
Compensated absences	126,668	114,665
Total	<u>\$ 4,999,973</u>	<u>\$ 5,224,684</u>

The Town's long-term liabilities decreased by \$224,711 during the current fiscal year. This decrease was attributable to repayment of bonds, notes and capital leases. This decrease also reflects an offsetting increase in the liability for compensated absences and a new capital lease for equipment.

Additional information on the Town's long-term debt can be found in Note 3-G on pages 38-40 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town Commission approved a millage rate of 4.0008 for fiscal year 2014. The millage rate for fiscal year 2013 was 4.2300. The taxable value of real property increased by 6% for fiscal year 2013 and is expected to increase slightly in fiscal year 2014.

Other Factors

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

Several cost increases are anticipated in the next fiscal year. Capital outlay expenditures are expected to increase. Additional expenditures for on-going stormwater projects will be incurred to complete scheduled projects. In addition, possible repairs and improvements to facilities may increase capital outlay expenditures. Possible increases and additions to fees will allow an increase in revenues for fiscal 2014 and a portion of fiscal 2015.

Requests for Information

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

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TOWN OF MELBOURNE BEACH, FLORIDA

Basic Financial Statements

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TOWN OF MELBOURNE BEACH, FLORIDA

Statement of Net Position - Governmental Activities

September 30, 2013

ASSETS

Cash and cash equivalents	\$ 2,967,428
Investments	1,025
Receivables	165,494
Due from other governments	829,347
Prepaid items	72,184
Capital assets (net of accumulated depreciation):	
Land	897,742
Buildings	1,808,224
Improvements other than buildings	514,523
Machinery and equipment	575,755
Infrastructure	2,401,536
Construction in progress	2,134,799
Net bond issuance costs	19,744
Total assets	<u>12,387,801</u>

LIABILITIES

Accounts payable	972,954
Accrued payroll and related liabilities	29,929
Accrued interest payable	61,187
Unearned revenue	11,772
Deposits	6,035
Noncurrent liabilities:	
Due within one year:	
Revenue bonds payable	104,840
Note payable	147,000
Capital leases	98,816
Compensated absences	63,334
Due in more than one year:	
Revenue bonds payable	1,338,576
Note payable	2,841,000
Capital leases	339,073
Net OPEB obligation	4,000
Compensated absences	63,334
Total liabilities	<u>6,081,850</u>

NET POSITION

Net investment in capital assets	4,881,384
Restricted for:	
Community development projects	487,748
Unrestricted	936,819
Total net position	<u>\$ 6,305,951</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Statement of Activities - Governmental Activities

Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental activities:					
General government	\$ 756,337	\$ 110,617	\$ 74,108	\$ -	\$ (571,612)
Public safety	1,135,428	10,663	7,448	-	(1,117,317)
Recreation	73,274	9,299	1,048	-	(62,927)
Physical environment	333,379	-	-	1,321,044	987,665
Interest on long-term debt	233,457	-	-	-	(233,457)
Total governmental activities	\$ 2,531,875	\$ 130,579	\$ 82,604	\$ 1,321,044	(997,648)

General revenues:

Property taxes	1,440,233
Public utility taxes	554,177
Franchise taxes	222,679
Shared revenues not restricted to specific programs	209,833
Unrestricted investment earnings	1,705
Loss on sale of capital assets	(511)
Miscellaneous	81,311
Total general revenues	2,509,427
Change in net position	1,511,779
Net position, beginning	4,794,172
Net position, ending	\$ 6,305,951

TOWN OF MELBOURNE BEACH, FLORIDA

Balance Sheet - Governmental Funds

September 30, 2013

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,154,508	\$ 1,425,314	\$ 387,606	\$ 2,967,428
Investments	1,025	-	-	1,025
Accounts receivable, net	164,521	-	973	165,494
Due from other funds	199,973	-	-	199,973
Due from other governments	28,843	800,159	345	829,347
Prepaid items	72,184	-	-	72,184
Total assets	<u>\$ 1,621,054</u>	<u>\$ 2,225,473</u>	<u>\$ 388,924</u>	<u>\$ 4,235,451</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 33,784	\$ 930,362	\$ 8,808	\$ 972,954
Accrued payroll and related liabilities	29,929	-	-	29,929
Due to other funds	-	-	199,973	199,973
Deposits	6,035	-	-	6,035
Unearned revenue	11,772	-	-	11,772
Deferred revenue	98,488	800,159	-	898,647
Total liabilities	<u>180,008</u>	<u>1,730,521</u>	<u>208,781</u>	<u>2,119,310</u>
Fund balance				
Nonspendable:				
Prepaid items	72,184	-	-	72,184
Long term portion of advances	199,973	-	-	199,973
Restricted for:				
Debt service	-	-	2,248	2,248
Historic preservation	-	7,204	-	7,204
Stormwater construction	-	487,748	-	487,748
Law enforcement	4,529	-	1,429	5,958
Law enforcement education	-	-	10,341	10,341
Building department education	-	-	300	300
Old Town Hall	-	-	11,610	11,610
Stormwater utility	-	-	154,215	154,215
Unassigned	1,164,360	-	-	1,164,360
Total fund balances	<u>1,441,046</u>	<u>494,952</u>	<u>180,143</u>	<u>2,116,141</u>
Total liabilities and fund balances	<u>\$ 1,621,054</u>	<u>\$ 2,225,473</u>	<u>\$ 388,924</u>	

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

8,332,579

Deferred revenue (related to reimbursement for lease and grant funds) recorded in the funds has been reversed and recorded as revenue in governmental activities.

898,647

Long-term liabilities, including bonds payable, compensated absences and the net OPEB obligation are not due and payable in the current period and therefore are not reported in the funds.

(5,041,416)
\$ 6,305,951

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

TOWN OF MELBOURNE BEACH, FLORIDA

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

Year Ended September 30, 2013

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,664,326	\$ -	\$ 375,383	\$ 2,039,709
Licenses and permits	319,697	-	-	319,697
Intergovernmental	251,032	519,885	-	770,917
Charges for services	12,519	-	-	12,519
Fines and forfeitures	10,196	-	467	10,663
Interest	1,705	-	-	1,705
Miscellaneous	112,126	1,100	2,048	115,274
Total revenues	<u>2,371,601</u>	<u>520,985</u>	<u>377,898</u>	<u>3,270,484</u>
Expenditures				
Current:				
General government	648,004	-	-	648,004
Public safety	1,030,933	-	2,070	1,033,003
Recreation	8,132	-	3,952	12,084
Physical environment	222,163	12,139	28,362	262,664
Capital outlay	118,601	2,232,216	-	2,350,817
Debt service:				
Principal	95,448	-	243,243	338,691
Interest	22,910	-	210,123	233,033
Total expenditures	<u>2,146,191</u>	<u>2,244,355</u>	<u>487,750</u>	<u>4,878,296</u>
Excess (deficiency) of revenues over (under) expenditures	<u>225,410</u>	<u>(1,723,370)</u>	<u>(109,852)</u>	<u>(1,607,812)</u>
Other financing sources (uses)				
Transfers in	2,000	10,000	137,742	149,742
Transfers out	(147,742)	(2,000)	-	(149,742)
Capital lease proceeds	98,187	-	-	98,187
Proceeds from sale of capital assets	3,350	-	-	3,350
Net other financing sources (uses)	<u>(44,205)</u>	<u>8,000</u>	<u>137,742</u>	<u>101,537</u>
Net change in fund balances	181,205	(1,715,370)	27,890	(1,506,275)
Fund balances, beginning	1,259,841	2,210,322	152,253	3,622,416
Fund balances, ending	<u>\$ 1,441,046</u>	<u>\$ 494,952</u>	<u>\$ 180,143</u>	<u>\$ 2,116,141</u>

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

TOWN OF MELBOURNE BEACH, FLORIDA

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

Year Ended September 30, 2013

Net change in fund balances - total governmental funds \$ (1,506,275)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.	2,005,602
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the net effect of these differences in the treatment of long-term debt and related items.	234,456
Some revenues are recorded in the statement of activities, but since they do not provide current financial resources are not reported as revenues in the funds. This is the amount of revenues recorded in the funds in the current year that was recorded in the statement of activities in a prior year.	(9,664)
Interest expense reported in the statement of activities requires the use of current financial resources and, therefore, is reported as an expenditure in the governmental funds.	3,365
The St. John's Water Management District grant revenues are recorded in the statement of activities, but since they do not provide current financial resources are not reported as revenues in the funds.	800,159
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and disposals) is to decrease net position.	(3,861)
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(12,003)
Change in net position of governmental activities	<u>\$ 1,511,779</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Statement of Fiduciary Net Position - Pension Trust Fund - Police Officers' Pension Plan

September 30, 2013

ASSETS

Cash and cash equivalents	\$	86,049
Investments at fair value:		
Equity investments		1,334,894
Mutual funds		909,802
Accounts receivable		<u>22,967</u>
Total assets		<u>2,353,712</u>

LIABILITIES

-

NET POSITION

Held in trust for pension benefits	\$	<u><u>2,353,712</u></u>
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TOWN OF MELBOURNE BEACH, FLORIDA

Statement of Changes in Fiduciary Net Position - Pension Trust Fund - Police Officers' Pension

Year Ended September 30, 2013

ADDITIONS

Contributions:

Town	\$ 198,708
Employee	21,940
State	31,709
Total contributions	<u>252,357</u>

Investment income:

Net appreciation in the fair value of investments	206,182
Interest and dividends	58,012
Net investment income	<u>264,194</u>

Total additions

516,551

DEDUCTIONS

Benefit payments	241,174
Administrative expenses	35,363
Total deductions	<u>276,537</u>

Change in net position

240,014

Net position held in trust for pension benefits, beginning of year

2,113,698

Net position held in trust for pension benefits, end of year

\$ 2,353,712

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TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

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

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Town reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Additionally, the Town reports the following fund type:

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

The Town's nonmajor governmental funds are special revenue funds and a debt service fund. The special revenue funds account for contraband forfeitures, law enforcement training, building department training, maintenance of town hall and stormwater utility taxes. The debt service fund accounts for the acquisition of debt instruments.

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

D. Assets, liabilities, and net position or equity

1. Cash and investments

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

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

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and payables

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

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

The Town is permitted to levy property taxes up to 10 mills on real property and business personal property located within its boundaries. Property taxes are levied by the Town on property values assessed by the Brevard County Property Appraiser and approved by the Florida Department of Revenue. The Town’s levy on taxes per \$1,000 of assessed value was \$4.2300 for 2013. The Town also levies on taxes per \$1,000 of assessed value was \$.9999 for stormwater, and \$.2064 for the library for 2013. Taxes based on the January 1 assessment value are due in November with discounts of one percent (1%) per month if paid before March, and become delinquent on April 1 with a penalty of three percent (3%) for real estate and one and one-half percent (1.5%) for business personal property. There is a public auction on the Brevard County Courthouse steps on or about June 1 to sell the tax certificates for unpaid property taxes. Brevard County acts as an agent for the Town in the collection of these taxes.

3. Prepaid items

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

4. Capital assets

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

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital assets (continued)

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

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

5. Compensated absences

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

6. Unearned revenues

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

7. Deferred revenues

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

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium and discount. Bond issuance costs are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund equity

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

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

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

Committed Fund Balance - Amounts that have self-imposed limitations established through actions of the Town Commission (the Town's highest level of decision making authority) set in place prior to the end of a financial reporting period. These amounts cannot be used for any other purpose unless the Town Commission takes action to remove or change the limitation. The Town has no committed fund balances at September 30, 2013.

Assigned Fund Balance – Amounts that the Town intends to use for a specific purpose. The authority for such intent may be expressed by the Town Commission, or is herein delegated independently to the Town Manager and/or Finance Director. The Town has no assigned fund balances at September 30, 2013.

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

The Town would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds. The Town did not have any Committed or Assigned fund balances as of September 30, 2013.

10. Accounting changes

The Town has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The Statement of Net Position incorporates GASB Statement No. 63 by displaying three components of net position: net investment in capital assets, restricted and unrestricted.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, compensated absences, and the net OPEB obligation, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(5,041,416) difference are as follows:

Bonds payable	\$ (1,479,840)
Less: deferred issuance costs (to be amortized over life of debt)	19,744
Plus: issuance premium (to be amortized over life of debt)	(33,492)
Less: deferred refunding loss (to be amortized over life of debt)	69,916
Accrued interest payable	(61,187)
Note payable	(2,988,000)
Capital lease	(437,889)
Net OPEB obligation	(4,000)
Compensated absences	(126,668)
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u>\$ (5,041,416)</u>

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,005,602 difference are as follows:

Capital outlay	\$ 2,350,817
Depreciation expense	<u>(345,215)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net position of governmental activities</i>	<u>\$ 2,005,602</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

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

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

Another element of the reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position”. The details of this \$234,456 difference are as follows:

Debt issued or incurred:	
Capital lease	\$ (98,187)
Principal repayments:	
Capital leases	95,448
Revenue bonds	55,000
Ad valorem bonds	47,243
Note payable	141,000
Amortization of bond premium	3,427
Amortization of debt issuance costs	(2,258)
Amortization of deferred refunding loss	(7,217)
Net adjustment to increase net <i>changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 234,456

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At September 30, 2013, the Town’s carrying amount of cash deposits was \$2,546,497 and the bank balance was \$2,920,129. In addition, the Town reported petty cash of \$350. As of September 30, 2013, \$449,724 of the Town’s bank balance is covered by the Federal Depository Insurance Corporation (FDIC). Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Depositories Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the Town pursuant to Section 280.08, Florida Statutes. The Town participates in the State Board of Administration (SBA), and deposits are secured by government securities as required by Florida Statutes.

Credit risk

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

Interest rate risk

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and investments (continued)

Concentration of credit risk

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

At September 30, 2013, the Town had the following investments:

Investment type	Fair Value	Investment Maturities (in years)				Rating	Agency
		Less than 1	1 - 5	6 - 10	More than 10		
Primary government:							
SBA: Florida Prime	\$ 420,581	\$ 420,581	\$ -	\$ -	\$ -	AAAm	S&P
SBA: Fund B	1,025	-	1,025	-	-	Not rated	
	<u>\$ 421,606</u>	<u>\$ 420,581</u>	<u>\$ 1,025</u>	<u>\$ -</u>	<u>\$ -</u>		
Pension trust funds:							
Money market fund	\$ 86,049	\$ 86,049	\$ -	\$ -	\$ -	Not rated	
Corporate stock	1,334,894	1,334,894	-	-	-	Not rated	
Bond mutual funds	694,391	694,391	-	-	-	Not rated	
Stock mutual funds	233,204	233,204	-	-	-	Not rated	
	<u>\$ 2,348,538</u>	<u>\$ 2,348,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

B. Receivables

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

	General Fund	Nonmajor Funds	Total Governmental Funds
Accounts receivable	\$ 140,183	\$ 973	\$ 141,156
Utility service tax	24,338	-	24,338
Total receivables	<u>\$ 164,521</u>	<u>\$ 973</u>	<u>\$ 165,494</u>

C. Due from other governments

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

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

C. Due from other governments (continued)

	General Fund	Capital Projects	Nonmajor Funds	Total Governmental Funds
Taxes and fees	\$ 28,843	\$ -	\$ 345	\$ 29,188
Grant receivable	-	800,159	-	800,159
Total receivables	<u>\$ 28,843</u>	<u>\$ 800,159</u>	<u>\$ 345</u>	<u>\$ 829,347</u>

D. Capital assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Additions/ Transfers	Deletions/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	1,134,246	2,231,726	(1,231,173)	2,134,799
Total capital assets, not being depreciated	<u>2,031,988</u>	<u>2,231,726</u>	<u>(1,231,173)</u>	<u>3,032,541</u>
Capital assets, being depreciated:				
Buildings	2,482,582	9,004	-	2,491,586
Improvements other than buildings	1,140,677	8,785	-	1,149,462
Equipment	1,691,801	101,302	(61,485)	1,731,618
Infrastructure	1,916,701	1,231,173	-	3,147,874
Total capital assets being depreciated	<u>7,231,761</u>	<u>1,350,264</u>	<u>(61,485)</u>	<u>8,520,540</u>
Less accumulated depreciation for:				
Buildings	605,457	77,905	-	683,362
Improvements other than buildings	579,569	55,370	-	634,939
Equipment	1,097,903	115,584	(57,624)	1,155,863
Infrastructure	649,982	96,356	-	746,338
Total accumulated depreciation	<u>2,932,911</u>	<u>345,215</u>	<u>(57,624)</u>	<u>3,220,502</u>
Total capital assets being depreciated, net	<u>4,298,850</u>	<u>1,005,049</u>	<u>(3,861)</u>	<u>5,300,038</u>
Governmental activities capital assets, net	<u>\$ 6,330,838</u>	<u>\$ 3,236,775</u>	<u>\$ (1,235,034)</u>	<u>\$ 8,332,579</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital assets (continued)

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

Governmental activities:		
General government	\$	99,982
Public safety		99,010
Cultural and recreational		73,699
Physical environment		72,524
Total depreciation expense – governmental activities	\$	<u>345,215</u>

E. Interfund receivables, payable and transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Advance to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service Fund	\$ <u>199,973</u>

Repayment of the advance will occur as funds come available.

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

Interfund transfers:

<u>Transfers in:</u>	<u>Transfers out:</u>	<u>Amount</u>
Debt Service Fund	General Fund	\$ <u>135,442</u>
Nonmajor Funds	General Fund	\$ <u>12,300</u>
General Fund	Capital Projects Fund	\$ <u>2,000</u>

Significant transfers included \$135,442 from the General fund to the Debt Service fund for debt service requirements.

F. Capital lease

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

Asset:

Equipment	\$	956,414
Less: Accumulated depreciation		(454,656)
Total	\$	<u>501,758</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Capital lease (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, were as follows:

Year Ending September 30,	Principal	Interest	Total
2014	\$ 98,816	\$ 24,389	\$ 123,205
2015	63,528	18,682	82,210
2016	40,011	14,733	54,744
2017	38,950	12,600	51,550
2018	38,741	10,492	49,233
2019-2023	157,843	20,483	178,326
Total minimum lease payments	<u>\$ 437,889</u>	<u>\$ 101,379</u>	<u>\$ 539,268</u>

G. Long-term debt

Ad Valorem Tax Bond

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

Payment of the principal and interest on the Bond is secured by a pledge of real property ad valorem tax revenues assessed at an annual millage rate not to exceed .5 mills on all property within the Town. Principal is payable annually on May 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2000, with a final payment on May 1, 2014. The interest rate is 5.5%. The outstanding principal as of September 30, 2013 is \$49,840. The pledged gross revenues were \$54,829 and principal and interest payments were \$52,579 during 2013. As of September 30, 2013, principal and interest to maturity in 2014 to be paid from pledged future revenues totaled \$52,582

Revenue Bond

On May 1, 2005 the Town issued Florida Municipal Loan Council Revenue Refunding Bonds, Series 2005B in the amount of \$1,620,000 to partially defease the Florida Municipal Loan Council Revenue Bonds, Series 1999B. The bonds are to be repaid with non-advalorem revenues of the Town. The bonds were issued for a period of 24 years with interest rates ranging from 3.0% to 5.0%. Principal is payable annually on November 1. Interest is payable on May 1 and November 1 of each year commencing on May 1, 2007, with a final payment on November 1, 2029. The outstanding principal balance as of September 30, 2013 is \$1,430,000, plus an unamortized premium of \$33,492.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-term debt (continued)

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

Year ending September 30,	Principal	Interest	Total
2014	\$ 104,840	\$ 71,014	\$ 175,854
2015	60,000	66,230	126,230
2016	60,000	63,950	123,950
2017	65,000	61,125	126,125
2018	70,000	57,750	127,750
2019-2023	395,000	232,625	627,625
2024-2028	490,000	122,750	612,750
2029-2030	235,000	11,875	246,875
Totals	<u>\$ 1,479,840</u>	<u>\$ 687,319</u>	<u>\$ 2,167,159</u>

Note Payable

On August 20, 2009, the Town entered into a loan with a bank in the amount of \$3,500,000 for the purpose of improving the stormwater management system and the repaving of affected streets. The note was issued for a period of 19 years with an interest rate of 4.23%. Principal is payable annually on July 1. Interest is payable on July 1 and January 1 of each year commencing on January 1, 2010, with a final payment on July 1, 2028. The outstanding principal balance as of September 30, 2013 is \$2,988,000.

Payment of the principal and interest on the note payable is secured by a pledge of real property ad valorem tax revenues assessed at an annual millage rate not to exceed a total of 0.25 mills on all property within the Town. The pledged gross revenues were \$265,342 and principal and interest payments were \$273,358 during 2013. As of September 30, 2013, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$4,095,792.

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

Year ending September 30,	Principal	Interest	Total
2014	\$ 147,000	\$ 126,392	\$ 273,392
2015	153,000	120,174	273,174
2016	160,000	113,702	273,702
2017	166,000	106,934	272,934
2018	173,000	99,912	272,912
2019-2023	982,000	383,280	1,365,280
2024-2028	1,207,000	157,398	1,364,398
Totals	<u>\$ 2,988,000</u>	<u>\$ 1,107,792</u>	<u>\$ 4,095,792</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Long-term debt (continued)

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Ad Valorem bonds payable	\$ 97,083	\$ -	\$ (47,243)	\$ 49,840	\$ 49,840
Revenue bonds payable	1,485,000	-	(55,000)	1,430,000	55,000
Bond premium	36,919	-	(3,427)	33,492	-
Deferred loss	(77,133)	-	7,217	(69,916)	-
Total bonds payable	<u>1,541,869</u>	<u>-</u>	<u>(98,453)</u>	<u>1,443,416</u>	<u>104,840</u>
Note payable	3,129,000	-	(141,000)	2,988,000	147,000
Capital leases	435,150	98,187	(95,448)	437,889	98,816
Net OPEB obligation	4,000	-	-	4,000	-
Compensated absences	<u>114,665</u>	<u>44,821</u>	<u>(32,818)</u>	<u>126,668</u>	<u>63,334</u>
Governmental activity long-term liabilities	<u>\$ 5,224,684</u>	<u>\$ 143,008</u>	<u>\$ (367,719)</u>	<u>\$ 4,999,973</u>	<u>\$ 413,990</u>

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

H. Operating leases

The Town does not have any operating leases for the year ending September 30, 2013.

NOTE 4 – OTHER INFORMATION

A. Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters. In order to limit this exposure, the Town participates in the Florida League of Cities (a not-for-profit corporation) self-insurance program for workers compensation, general and auto liability, and property insurance. The self-insurance purchases excess and specific coverage from third party insurance carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. There have been no significant reductions in insurance coverage during 2013. Settled claims have not exceeded commercial excess coverage in any of the past three years.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

B. Retirement commitments – defined benefit plans

Florida Retirement System

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

Generally, membership is compulsory for all full-time and part-time general employees. Effective July 1, 2011, employees began paying 3% of their gross income and the Town pays the remaining contribution. Additionally, as of July 1, 2011, the vesting requirement was increased from six (6) years to eight (8) years of service. The rates for employees as a percent of covered payroll vary depending on the employee's membership class. Total contribution rates were 9.95%, 8.18% and 7.91% for regular employees with the Town's contribution rate equal to 6.95%, 5.18% and 4.91% for 2013, 2012, and 2011, respectively. The amount of covered payroll for the years ended September 30, 2013, 2012, and 2011 were \$232,817, \$297,514, and \$419,406, respectively. The Town's contributions to the System for the three years ended September 30, 2013, 2012, and 2011 were \$13,310, \$15,411, and \$33,175, respectively, and are equal to the required contributions for each year.

Police Officers' Pension Plan

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

Plan description – All full-time police officers are eligible to participate in the Police Officers' Pension Plan. This is a single employer, defined benefit pension plan. Benefits vest after ten years of service. Participants may retire upon attainment of the earlier of, age 55 and completion of ten years of credited service, or age 52 and 20 years of credited service. Retirees are entitled to 3.0% of average monthly earnings times years of credited service. The plan also provides service-incurred disability compensation and early retirement. Early retirement may be taken at age 50 and 10 years of credited service with reduced benefits. The total contributions to the plan, including plan members contributions, are 30.0% of annual covered payroll. Benefit provisions and other requirements of the plan are established by Florida Statutes and Town Ordinance 2012-02. They are accounted for as pension trust funds and reported on herein as part of the Town's reporting entity. The plan is administered through its own Board of Trustees. There are 6 retirees receiving benefits, and 9 active members. Pension plan data is provided from the respective actuarial reports as of October 1, 2013.

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

B. Retirement commitments – defined benefit plans (continued)

Funding policy – The Town’s annual contribution to the pension plan was \$198,708 which approximated the actuarially determined contribution of \$198,708 for the plan year ended September 30, 2013. The Town uses the Entry Age Normal Actuarial Cost Method (EANACM). This is an acceptable method to the State of Florida. These liabilities are being funded over a 30 year period.

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

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

Annual pension cost – The Town’s actuarially required contribution was \$198,708, and the amount funded by member, Town, and State contributions was \$252,357.

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

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

	<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
Police Plan	2013	\$ 230,418	100%	\$ -
	2012	197,503	100%	-
	2011	240,275	100%	-

Funding Status and Funding Progress. The funded status of the plan as of October 1, 2013, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability AAL Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL a % of Covered Payroll ((b-a)/c)</u>
10/01/13	\$ 2,276,007	\$ 3,273,863	\$ 997,856	69.52%	\$ 445,185	224.14%

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

B. Retirement commitments – defined benefit plans (continued)

	Police Pension Plan
Contribution rates as of 09/30/13:	
City	52.51%
Plan members	5.0%
Annual pension cost	\$230,417
Contributions made	\$230,417
Actuarial valuation date	10/01/13
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	27 years as of 10/01/13
Asset valuation method	4-year smooth
Actuarial assumptions:	
Investment rate return	8.0%
Projected salary increases *	6.0%
* Includes inflation at	3.0%
Post retirement cost-of-living adjustments	3.0% beginning at retirement until age 62

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

Year Ended September 30	Annual Required Contribution	Town Contribution	State Contribution	NPO
2013	\$ 230,417	\$ 198,708	\$ 31,709	\$ -
2012	197,503	164,560	32,943	-
2011	240,275	206,606	33,669	-

C. Defined contribution plan

401(a) Money Purchase Plan and Trust

In January, 2005, the Town established a 401(a) Money Purchase Plan and Trust with ICMA Retirement Corporation, exclusively for the Town Manager in accordance with an employment agreement with the Town Manager. Such employment agreement requires the Town to contribute an amount equal to the amount which would have otherwise been paid for that year as a contribution to the Town's retirement fund. The Town Manager cannot contribute. The Town's contributions totaled \$8,188 for the year ended September 30, 2012. There were no contributions made in the year ended September 30, 2013.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

C. Defined contribution plan (continued)

Beginning with the financial report for the year ended September 30, 2013, the Town will no longer include the net position and changes in fiduciary net position for the Money Purchase Plan and Trust in its annual financial statements, as the funds held in the plan are held for the custody of the beneficiary and the Town has no fiduciary responsibility for the assets once the contributions have been remitted to the plan trustee.

D. Other post-employment benefits

Plan description. The Town of Melbourne Beach, Florida administers a single-employer defined benefit healthcare plan (the “Plan”) that provides medical insurance to its employees and their eligible dependents. Pursuant to Section 112.0801 Florida Statutes, the Town is required to provide eligible retirees, as defined in the Town’s ordinances, the opportunity to participate in this Plan at the same cost that is applicable to active employees. Eligible participants include all employees who retire from the Town either under disability or after attaining age 62 with at least 6 years of pension service for general employees, or after attaining age 52 with at least 20 years of pension service for sworn employees.

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

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

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

For the year ended September 30, 2013, the Town’s contribution is \$6,000, which represents an estimate of the implied subsidy described above. Contributions of Plan members totaled \$32,952 for the year ended September 30, 2013.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

D. Other post-employment benefits (continued)

Annual OPEB cost and net OPEB obligation. The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year ended September 30, 2013, the amount actually contributed to the Plan, and changes in the Town’s net OPEB obligation to the Plan:

Annual required contribution	\$ 6,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>6,000</u>
* Contributions made	(6,000)
Interest on employer contributions	-
Increase in net OPEB obligation	<u>-</u>
Net OPEB obligation – beginning of year	4,000
Net OPEB obligation – end of year	<u>\$ 4,000</u>

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

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

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/13	\$ 6,000	100%	\$ 4,000
9/30/12	\$ 7,000	100%	\$ 4,000
9/30/11	\$ 7,000	86%	\$ 4,000

Funded status and funding progress. Because the Plan has fewer than 200 members, the Town is required to obtain an actuarial valuation at least every three years. The most recent actuarial valuation was performed as of October 1, 2013. Accordingly, the Town will be required to obtain a subsequent actuarial valuation within three years of that date. As of September 30, 2013, the actuarial accrued liability for benefits was \$26,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$541,000, and the ratio of unfunded actuarial accrued liability (UAAL) to the covered payroll was 4.8%.

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

D. Other post-employment benefits (continued)

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

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

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

In the October 1, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return (including inflation of 2.75%) and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.0% after nine years. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The UAAL is being amortized using a level-dollar payment basis over an open period of 10 years.

E. Litigation

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Financial Statements

September 30, 2013

NOTE 4 – OTHER INFORMATION (CONTINUED)

F. Commitments

The Town has active construction commitments as of September 30, 2013 in the amount of \$259,191.

G. Future Accounting Pronouncements

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

- Items previously reported as assets and liabilities;
- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

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

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

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TOWN OF MELBOURNE BEACH, FLORIDA

Required Pension Supplementary Information – Schedule of Funding Progress

Last Six Fiscal Years

Police Pension Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability AAL Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL a % of Covered Payroll ((b-a)/c)
10/1/2013	\$ 2,276,007	\$ 3,273,863	\$ 997,856	69.52%	\$ 445,185	224.14%
10/1/2012	2,079,266	3,176,905	1,097,639	65.45%	411,573	266.69%
10/1/2011	1,989,982	3,084,260	1,094,278	64.52%	418,522	261.46%
10/1/2010	2,012,245	2,967,296	955,051	67.81%	412,334	231.62%
10/1/2009	2,050,034	2,894,442	844,408	70.83%	329,086	256.59%
10/1/2008	2,204,106	2,811,683	607,577	78.39%	357,837	169.79%

TOWN OF MELBOURNE BEACH, FLORIDA

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

Last Six Fiscal Years

Police Pension Plan:

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Town Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 230,417	\$ 198,708	\$ 31,709	100.00%
2012	197,503	164,560	32,943	100.00%
2011	240,275	206,606	33,669	100.00%
2010	154,116	114,851	39,265	100.00%
2009	131,274	94,895	36,379	100.00%
2008	99,856	57,066	42,790 *	100.00%

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

TOWN OF MELBOURNE BEACH, FLORIDA

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability AAL (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
10/1/2013	\$ -	\$ 26,000	\$ 26,000	0.0%	\$ 541,000	4.80%
1/1/2010	\$ -	\$ 45,000	\$ 45,000	0.0%	\$ 474,000	9.50%

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

TOWN OF MELBOURNE BEACH, FLORIDA

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

General Fund

Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 1,628,332	\$ 1,663,861	\$ 1,664,326	\$ 465
Licenses and permits	305,109	319,702	319,697	(5)
Intergovernmental	250,015	252,684	251,032	(1,652)
Charges for services	10,060	12,520	12,519	(1)
Fines and forfeitures	20,500	10,196	10,196	-
Miscellaneous (including interest)	37,961	111,882	113,831	1,949
Total revenues	<u>2,251,977</u>	<u>2,370,845</u>	<u>2,371,601</u>	<u>756</u>
Expenditures				
General government:				
Legislative	94,466	80,662	80,657	5
Executive	115,987	123,774	123,770	4
Finance	92,717	93,517	88,532	4,985
Legal counsel	100,500	93,349	93,348	1
Comprehensive planning	20,000	25,700	25,700	-
General services	250,535	254,272	235,997	18,275
Total general government	<u>674,205</u>	<u>671,274</u>	<u>648,004</u>	<u>23,270</u>
Public Safety:				
Law enforcement	922,096	929,249	929,238	11
Fire control	154,164	149,728	149,719	9
Building department	53,245	68,012	68,009	3
Code enforcement	19,718	4,953	4,950	3
Total public safety:	<u>1,149,223</u>	<u>1,151,942</u>	<u>1,151,916</u>	<u>26</u>
Recreation	8,137	8,132	8,132	-
Physical environment	<u>272,731</u>	<u>239,962</u>	<u>239,952</u>	<u>10</u>
Total expenditures	<u>2,104,296</u>	<u>2,071,310</u>	<u>2,048,004</u>	<u>23,306</u>
Excess of revenues over expenditures	<u>147,681</u>	<u>299,535</u>	<u>323,597</u>	<u>24,062</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	2,200	3,350	3,350	-
Transfers in	2,000	2,000	2,000	-
Transfers out	(140,815)	(147,692)	(147,742)	(50)
Net other financing sources (uses)	<u>(136,615)</u>	<u>(142,342)</u>	<u>(142,392)</u>	<u>(50)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>11,066</u>	<u>157,193</u>	<u>181,205</u>	<u>24,012</u>
Fund balances, beginning of year	<u>1,259,841</u>	<u>1,259,841</u>	<u>1,259,841</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,270,907</u>	<u>\$ 1,417,034</u>	<u>\$ 1,441,046</u>	<u>\$ 24,012</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Required Supplementary Information

September 30, 2013

A. Budgetary information

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

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

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

Revenues

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

TOWN OF MELBOURNE BEACH, FLORIDA

Notes to Required Supplementary Information

September 30, 2013

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

Expenditures

	<u>General Fund</u>
Actual amounts (budgetary basis) total expenditures as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ 2,048,004
Differences - budget to GAAP; Capital outlay for equipment and police vehicles for financial reporting purposes, but not reported as an expenditure for budgetary purposes.	<u>98,187</u>
Total expenditures reported on the statement of revenues, expenditures and changes in fund balances.	<u>\$ 2,146,191</u>

Other Financing Sources (uses)

	<u>General Fund</u>
Actual amounts (budgetary basis) net other financing sources (uses) as reported on the schedule of revenues, expenditures and changes in fund balance – budget and actual	\$ (142,392)
Differences - budget to GAAP; Capital lease proceeds for equipment and police vehicles for financial reporting purposes, but not reported as an expenditure for budgetary purposes.	<u>98,187</u>
Net other financing sources (uses) reported on the statement of revenues, expenditures, and changes in fund balances.	<u>\$ (44,205)</u>

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

TOWN OF MELBOURNE BEACH, FLORIDA

Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2013

	Special Revenue			
	Law Enforcement Forfeiture	Police Education Fund	Building Education Fund	Old Town Hall
ASSETS				
Cash and cash equivalents	\$ 1,429	\$ 10,341	\$ 300	\$ 12,002
Accounts receivable, net	-	-	-	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 1,429</u>	<u>\$ 10,341</u>	<u>\$ 300</u>	<u>\$ 12,002</u>
LIABILITIES				
Accounts payable	-	-	-	392
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>392</u>
FUND BALANCES				
Restricted for:				
Debt service	-	-	-	-
Law enforcement	1,429	-	-	-
Law enforcement education	-	10,341	-	-
Building department education	-	-	300	-
Stormwater utility	-	-	-	-
Old Town Hall	-	-	-	11,610
Unrestricted	-	-	-	-
Total fund balances	<u>1,429</u>	<u>10,341</u>	<u>300</u>	<u>11,610</u>
Total liabilities and fund balances	<u>\$ 1,429</u>	<u>\$ 10,341</u>	<u>\$ 300</u>	<u>\$ 12,002</u>

<u>Special Revenue</u>			
<u>Stormwater Utility Fund</u>	<u>Total</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 161,611	\$ 185,683	\$ 201,923	\$ 387,606
973	973	-	973
47	47	298	345
<u>\$ 162,631</u>	<u>\$ 186,703</u>	<u>\$ 202,221</u>	<u>\$ 388,924</u>
8,416	8,808	-	8,808
-	-	199,973	199,973
<u>8,416</u>	<u>8,808</u>	<u>199,973</u>	<u>208,781</u>
-	-	2,248	2,248
-	1,429	-	1,429
-	10,341	-	10,341
-	300	-	300
154,215	154,215	-	154,215
-	11,610	-	11,610
-	-	-	-
<u>154,215</u>	<u>177,895</u>	<u>2,248</u>	<u>180,143</u>
<u>\$ 162,631</u>	<u>\$ 186,703</u>	<u>\$ 202,221</u>	<u>\$ 388,924</u>

TOWN OF MELBOURNE BEACH, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

September 30, 2013

	Special Revenue		
	Law Enforcement Forfeiture	Police Education Fund	Building Education Fund
REVENUES			
Taxes	\$ -	\$ -	\$ -
Fines and forfeitures	-	467	-
Miscellaneous	-	-	-
Total revenues	<u>-</u>	<u>467</u>	<u>-</u>
EXPENDITURES			
Current:			
Public safety	-	2,070	-
Recreation	-	-	-
Physical environment	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>-</u>	<u>2,070</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(1,603)</u>	<u>-</u>
Other financing sources (uses)			
Transfers in	-	-	300
Transfers out	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>300</u>
Net changes in fund balances	-	(1,603)	300
Fund balances, beginning of year	1,429	11,944	-
Fund balances, end of year	<u>\$ 1,429</u>	<u>\$ 10,341</u>	<u>\$ 300</u>

Special Revenue

Old Town Hall	Stormwater Utility Fund	Total	Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ 55,211	\$ 55,211	\$ 320,172	\$ 375,383
-	-	467	-	467
2,048	-	2,048	-	2,048
<u>2,048</u>	<u>55,211</u>	<u>57,726</u>	<u>320,172</u>	<u>377,898</u>
-	-	2,070	-	2,070
3,952	-	3,952	-	3,952
-	28,362	28,362	-	28,362
-	-	-	243,243	243,243
-	-	-	210,123	210,123
<u>3,952</u>	<u>28,362</u>	<u>34,384</u>	<u>453,366</u>	<u>487,750</u>
<u>(1,904)</u>	<u>26,849</u>	<u>23,342</u>	<u>(133,194)</u>	<u>(109,852)</u>
2,000	-	2,300	135,442	137,742
-	-	-	-	-
<u>2,000</u>	<u>-</u>	<u>2,300</u>	<u>135,442</u>	<u>137,742</u>
96	26,849	25,642	2,248	27,890
11,514	127,366	152,253	-	152,253
<u>\$ 11,610</u>	<u>\$ 154,215</u>	<u>\$ 177,895</u>	<u>\$ 2,248</u>	<u>\$ 180,143</u>

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Melbourne Beach, Florida's basic financial statements, and have issued our report thereon dated March 10, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questions Costs, that we consider to be a significant deficiency, IC 2013-001.

Compliance and Other Matters

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

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

The Town of Melbourne Beach, Florida's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Melbourne Beach, Florida's response was not subjected to the auditing procedures applied in the audit of 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr Riggs & Ingram, LLC

Melbourne, Florida
March 10, 2014

Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Melbourne Beach, Florida's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Melbourne Beach, Florida's major federal programs for the year ended September 30, 2013. The Town of Melbourne Beach, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Town of Melbourne Beach, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item SA 2013-001, that we consider to be a significant deficiency.

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

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

Carr Riggs & Ingram, LLC

Melbourne, Florida
March 10, 2014

THE TOWN OF MELBOURNE BEACH, FLORIDA
Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2013

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

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

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

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

Identification of major federal program:

<u>Federal CFDA Numbers</u>	<u>Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant

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

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

THE TOWN OF MELBOURNE BEACH, FLORIDA
Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2013

FINDINGS - FINANCIAL STATEMENTS AUDIT

IC 2013-001 RETAINAGE PAYABLE

Criteria: Section 1500: Reporting Liabilities of the *Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards* requires a government to accrue a governmental fund liability and expenditure in the period in which the government incurs the liability.

Condition: An adjusting journal entry was required for fiscal year 2013 to record retainage payable on construction projects in progress as of year-end.

Cause: It is the Town's policy to record accruals for retainage payable, when applicable, on an annual basis. The accrual for retainage as of September 30, 2013 was not identified and recorded during year-end procedures.

Effect: Liabilities and the related capital outlay account were understated, prior to audit adjustment, by \$190,437 at September 30, 2013.

Recommendation: We recommend the Town review its year-end close procedures to ensure that review of all open construction contracts occurs and that retainage payable, when applicable, be recorded in the Town's general ledger.

Management's Response: The Town does not usually have retainage payable at the end of the fiscal year. At the end of each fiscal year, the Town will thoroughly review all open construction contracts to determine whether retainage payable exists and to record the retainage payable as required.

THE TOWN OF MELBOURNE BEACH, FLORIDA
Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended September 30, 2013

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

SA 2013-001 ALLOWABLE COSTS AND ACTIVITIES
U.S. DEPARTMENT OF HOMELAND SECURITY
97.039 – HAZARD MITIGATION GRANT

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

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

Questioned Costs: The total questioned costs in fiscal year 2013 were \$19,086.

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

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

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

Management's Response: For all current and subsequent grants, the Town will obtain a thorough understanding of the grant requirements and work closely with the granting agency to avoid noncompliance. Additionally, the Town has already implemented the use of personnel activity reports for all employees who allocate a portion of their time worked to grant-funded activities.

OTHER ISSUES

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to federal programs or state projects.

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TOWN OF MELBOURNE BEACH, FLORIDA

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

Federal Agency/ Pass-through Grantor/ Program Title	Grant or Contract Number	CFDA Number	Total Federal Expenditures	Transfers to Sub- recipients
Federal Programs:				
<u>U.S. Department of Justice</u>				
Indirect Program:				
Passed through Florida Department of Law Enforcement Bulletproof Vest Partnership Program	N/A	16.607	\$ 651	\$ -
Edward Byrne Memorial Justice Assistance Grant Program	2013-JAGC-BREV- 6-D8-074	16.738	<u>1,000</u>	<u>-</u>
Subtotal - U.S. Department of Justice			<u>1,651</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
Indirect Program:				
Passed through Florida Division of Emergency Management Hazard Mitigation Grant	HGMP DR-1545- 131-R	97.039	<u>1,177,216</u>	<u>-</u>
Subtotal - U.S. Department of Homeland Security			<u>1,177,216</u>	<u>-</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,178,867</u></u>	<u><u>\$ -</u></u>

Notes to the Schedule of Expenditures of Federal Awards

A. Basis of Presentation

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

B. Summary of Significant Accounting Policies

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

There are no subrecipients in fiscal year 2013.

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Independent Auditors' Management Letter

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

We have audited the financial statements of the Town of Melbourne Beach, Florida (the "Town") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated March 10, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and Chapter 10.550 Rules of the Florida Auditor General. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550 Rules of the Florida Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 10, 2014, should be considered in conjunction with this management letter.

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

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

Internal Control Letter Comments

IC 2012-001	Lease Recognition	Corrected
IC 2012-002	Computer Back-ups	Corrected
IC 2012-003	Fund Balance	Corrected
IC 2012-004	Budget	Corrected
IC 2010-002	Travel Expenditures	Revised and repeated below

- ❖ Section 10.554(l)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town complied with Section 218.415, Florida Statutes.

- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had the following recommendations:

IC 2010-002 Travel Expenditures

Criteria: Travel expenditures should relate to actual travel costs incurred by Town representatives or Town employees. The Town's policy requires the Town receive reimbursement for expenses incurred related to family of representatives.

Condition: During our testing, we identified one instance, resulting in an overpayment of \$30, where the Town paid for an event attendance for an official's spouse. It is the Town's policy to receive reimbursement for attendance fees paid for the spouse or personal guests of Town officials.

Cause of Condition: The Town prepaid for event attendance, which included the spouses of three (3) Town officials. The Town received reimbursement from two (2) of the Town officials, but a request for reimbursement was not made for one of the officials.

Effect of Condition: The Town overpaid for travel expenses.

Recommendation: The Town should have a process in place to verify that the travel charges, whether through credit card or employee reimbursement, are for actual costs incurred by Town employees or representatives. The process should include a means to identify and follow-up on items requiring reimbursement to the Town. In addition, the Town should seek repayment of the \$30.

Management's Response: The Town has established a process to verify travel charges are for actual costs incurred by Town employees or Town officials. Anytime the Town prepays an employee's or Town official's expenditures, a request for reimbursement will be made and will be followed-up on at least weekly until the reimbursement is made. In addition, no other expenses will be prepaid for that individual until the initial expense has been reimbursed. In addition, the Town will attempt to recover the \$30 from the individual who has not reimbursed the Town.

ML 2013-001 Capital Assets

Criteria: Construction projects should be capitalized and depreciation initiated at the time the asset is placed in service.

Condition: During our testing, we identified an instance in which a construction project was completed and removed from construction in progress, but was not placed on the capital asset listing and depreciated upon being placed into service.

Cause of Condition: The Town updates the capital asset listing and related depreciation schedule on an annual basis, as part of the year-end close process. The construction in progress listing is maintained separately. While the project was correctly shown as closed on the construction in progress listing, it was inadvertently left off of the capital asset listing and related depreciation schedule.

Effect of Condition: An adjustment to the Town's capital asset rollforward schedule and related entries to depreciation expense in the amount of \$41,039 was needed to correct the governmental activities capital asset activity.

Recommendation: The Town should review its year-end process related to capital asset activity to ensure controls are in place to properly capitalize and depreciate construction projects upon their completion.

Management's Response: The Town inadvertently missed the addition of the capital asset put into service and its associated depreciation. The Town will review its year-end process related to capital asset activity to ensure controls are in place to properly capitalize and depreciate construction projects upon their completion.

- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we noted one such finding, SA 2013-001.
- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority of the Town of Melbourne Beach, Florida is disclosed in the footnotes.
- ❖ Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Melbourne Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town of Melbourne Beach, Florida for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Melbourne Beach, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Carr Riggs & Ingram, LLC

Melbourne, Florida
March 10, 2014