

**TOWN OF MELBOURNE BEACH, FLORIDA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**



TOWN COMMISSION

*Jim Simmons, Mayor
Tom Davis, Vice Mayor
Wyatt Hoover
Sherri Quarrie
Steve Walters*

TOWN MANAGER

Robert Daniels

TOWN CLERK

Nancy Wilson

FINANCE MANAGER

Elizabeth Mascaro

**TOWN OF MELBOURNE BEACH, FLORIDA
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, (the Town), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town, as of September 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the General and Building Department funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

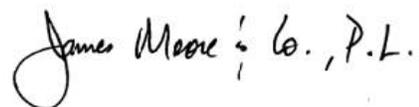
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Daytona Beach, Florida
March 28, 2018

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

As management of the Town of Melbourne Beach (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2017.

Financial Highlights

- The assets of the Town of Melbourne Beach exceeded its liabilities at the close of the 2017 fiscal year by \$6,642,166 (net position). Of this amount, \$5,562,346 is net investment in capital assets while restricted net position is \$61,026. \$1,009,944 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net position increased \$181,369 from the previous year.
- As of the close of fiscal year 2017, the Town's governmental funds reported combined ending fund balances of \$2,816,118, a decrease of \$544,817 in comparison with the prior year. While \$796,823 represents the portion restricted by outside parties, \$137,019 is committed by ordinance, and \$30,308 is assigned for capital improvements, \$1,733,221 of the governmental funds balance is available for spending at the government's discretion (unassigned fund balance). An additional \$69,897 of governmental fund balance is non-spendable for current obligations.
- At the end of the 2017 fiscal year, unassigned fund balance for the general fund was \$1,834,096 or 70.05% of total general fund expenditures.
- The Town's total long term liabilities decreased by \$254,257 during the 2017 fiscal year. This reflects the repayment of outstanding balances for bonds, notes and capital leases. This also reflects the refunding of the 2005 note and a decrease in the liability for compensated absences.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The governmental activities of the Town include general government, public safety, physical environment, and recreation. The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements

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

Governmental funds

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

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the majors funds. Data from the non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14-17 of this report.

Fiduciary funds

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-46 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found on pages 47-53 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 54-55 of this report.

Government-wide Financial Analysis

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

	<u>2017</u>	<u>2016</u>
Assets		
Current and other assets	\$ 2,968,374	\$ 3,530,880
Capital assets, net	8,624,784	8,194,539
	<u>\$ 11,593,158</u>	<u>\$ 11,725,419</u>
Total assets		
Deferred outflows of resources	<u>\$ 397,812</u>	<u>\$ 311,490</u>
Liabilities		
Current liabilities	\$ 114,564	\$ 144,947
Noncurrent liabilities	5,148,373	5,365,518
	<u>\$ 5,262,937</u>	<u>\$ 5,510,465</u>
Deferred inflows of resources	<u>\$ 85,867</u>	<u>\$ 65,647</u>
Net position		
Net investment in capital assets	\$ 5,562,346	\$ 5,418,772
Restricted	61,026	63,966
Unrestricted	1,018,794	978,059
	<u>\$ 6,642,166</u>	<u>\$ 6,460,797</u>
Total net position		

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 \$6,642,166 at the close of the 2017 fiscal year. By far the largest portion of the Town's net position (83.85% percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure and improvements), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining net position, \$61,026 represents resources that are subject to external restrictions on how they may be used. These restrictions relate primarily to externally imposed restrictions on funding for debt and capital purposes. The remaining balance of the net position which represents amounts available to meet the Town's ongoing obligations to citizens and creditors at the discretion of the Commission is \$1,009,944 for the 2017 fiscal year.

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

	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 384,841	\$ 263,170
Operating Grants	60,379	30,731
Capital Grants	9,029	65,474
General Revenues:		
Property taxes	1,757,888	1,647,536
Sales and use taxes	304,906	324,799
Franchise and utility taxes	237,202	239,020
Public services taxes	304,862	298,040
Insurance premium taxes	36,787	32,271
State revenue sharing	80,766	78,033
Investment earnings (loss)	4,722	2,399
Miscellaneous revenues	22,351	22,579
Total Revenues	<u>3,203,733</u>	<u>3,004,052</u>
Expenses:		
General government	898,463	866,869
Public safety	1,444,594	1,274,862
Physical environment	400,301	347,895
Culture/recreation	95,907	89,432
Interest on long-term debt	183,099	203,414
Total Expenses	<u>3,022,364</u>	<u>2,780,464</u>
Changes in net position	181,369	223,588
Beginning net position	<u>6,460,797</u>	<u>6,237,209</u>
Ending net position	<u>\$ 6,642,166</u>	<u>\$ 6,460,797</u>

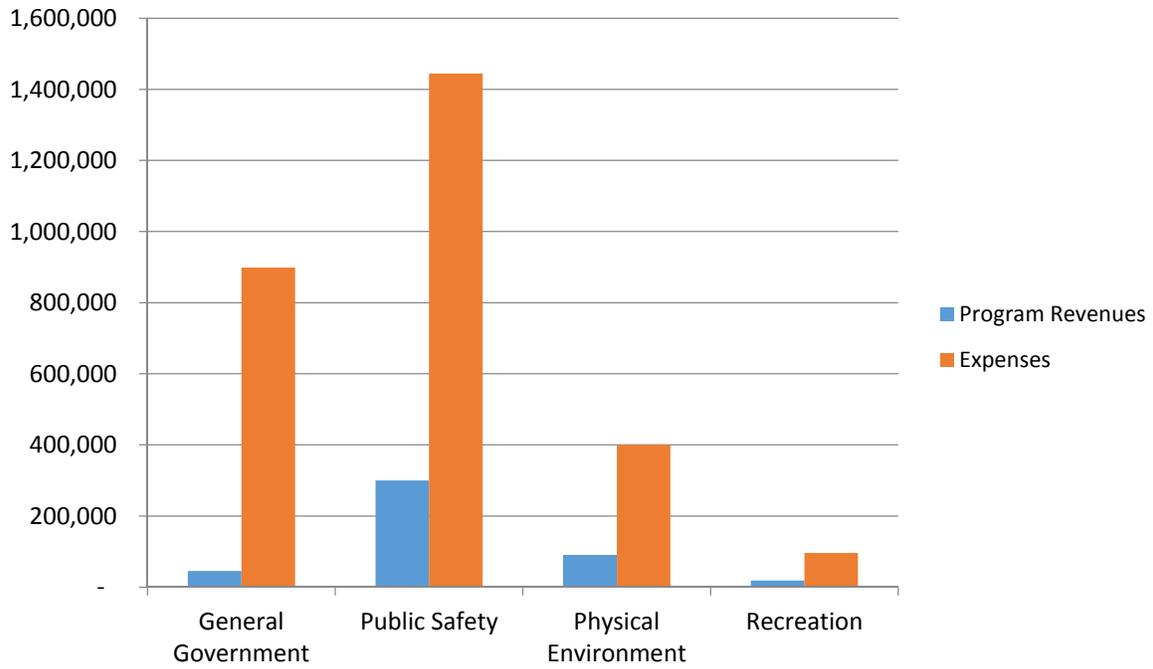
Governmental activities

Governmental activities increased the Town's net position by \$181,369. This amount is primarily attributable to increases in general revenues including property and charges for other services for special events, public safety services and fines.

- The Town's total revenues related to governmental activities increased by approximately \$190,831 from the prior year. Factors that contributed to an increase in revenues are an increase in property taxes of \$110,352 and a \$112,821 increase in charges for services, primarily related to building permit activity.
- Expenses related to governmental activities increased by \$241,900 from the prior year. This is related to an increase in public safety of \$169,732 to cover the cost of clean-up, repairs and salaries due to Hurricane Matthew, as well as, an increase in larger capital expenditures for a Police Department vehicle, and 2 AED's; installation of a new ventilations system in the truck bays of the Fire Department, and the Town's contribution toward the SCBA (breathing) Equipment Grant. The Community Center had a new HVAC system installed and the floors redone.

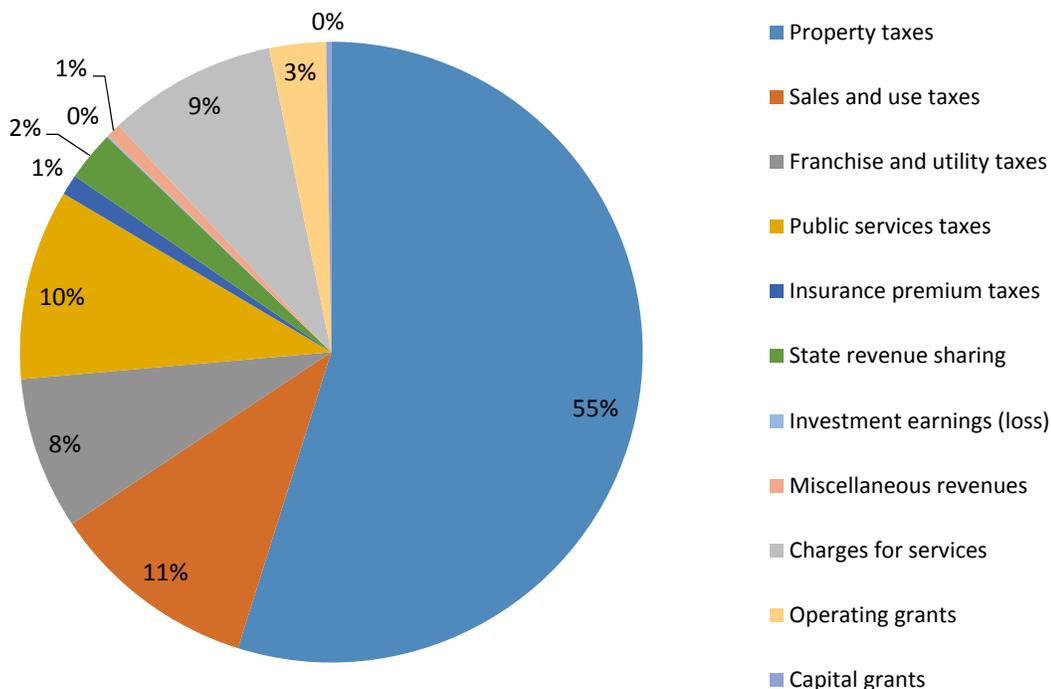
Expenses and Program Revenues - Governmental Activities

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



Revenues by Source - Governmental Activities

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



Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the fiscal year 2017, the Town's governmental funds reported combined ending fund balances of \$2,816,118, a decrease of \$544,817 in comparison with the prior year. As of the end of fiscal year 2017, \$69,897 of the fund balance is designated as non-spendable to indicate that it is not available for new spending because it has already been spent on prepaid items. A portion of the fund balances is restricted in use by outside parties for the following: \$46,750 for debt purposes; \$6,661 for historic preservation; \$710,819 for stormwater construction; \$14,467 for education; \$1,429 for law enforcement; and \$16,697 building department operations. \$137,019 is committed by ordinance for stormwater utility management. Additionally, \$30,308 has been assigned by the Town Commission for capital improvements. The remaining amount, \$1,782,071 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 2017 fiscal year, unassigned fund balance of the general fund was \$1,834,096 while total general fund balance was \$1,903,993. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. An excess of revenues over expenditures of \$256,193 was offset by \$128,598 of transfers to the debt service fund for debt payments and transfers of \$32,000 to the capital projects fund for capital improvements.

The Capital Projects Fund has a fund balance of \$747,838. The net change in fund balance during the current year in the capital projects fund was (\$540,360). The decrease was related to the milling and paving of five (5) miles of town road and the additional paving of Flamingo Drive.

The Debt Service Fund has a fund balance of \$46,750. The net change during the current year in the debt service fund was (\$39,580). The decrease was related to the additional expenses incurred for the refunding of the muni-bond.

The Nonmajor Funds have a fund balance of \$169,612 at the end of the year. The net change in the funds of (\$87,884) is attributable in part to the additional expenses incurred by the Town for repairs due to damage from Hurricane Matthew to the Town Pier.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental funds as of September 30, 2017, amounts to \$8,624,784 (net of accumulated depreciation). This represents a net increase of \$430,245. The current year additions include \$701,323 of buildings and improvements and \$235,437 of equipment. The Town had no projects under construction at the end of 2017 or 2016. These additions were offset by current year depreciation expense which totaled \$502,675, and a \$3,839 loss on the disposition of depreciable assets during the year.

The following summaries the Town's capital assets as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital assets, not being depreciated –		
Land	\$ 897,742	\$ 897,742
Construction in progress	-	-
Total capital assets, not being depreciated	<u>897,742</u>	<u>897,742</u>
Capital assets, being depreciated –		
Buildings and improvements	4,361,083	3,669,447
Equipment	2,112,763	1,892,470
Infrastructure	6,068,055	6,068,055
Total capital assets, being depreciated	<u>12,541,901</u>	<u>11,629,972</u>
Less: accumulated depreciation	<u>(4,814,859)</u>	<u>(4,333,175)</u>
Total capital assets, being depreciated, net	<u>7,727,042</u>	<u>7,296,797</u>
Governmental activities capital assets, net	<u>\$ 8,624,784</u>	<u>\$ 8,194,539</u>

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

Long-term Debt. At the end of the 2017 fiscal year, the Town had total bonded debt and notes payable principal outstanding of \$3,523,861.

The following summaries the Town's long-term debt (excluding the net pension liability and OPEB obligation) as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Notes and bonds payable	\$ 3,412,000	\$ 3,783,000
Les deferred amounts:		
Original issue premium	20,708	23,693
Original issue (discount)	(43,609)	(49,895)
Total notes and bonds payable	<u>3,523,861</u>	<u>3,756,798</u>
Capital leases	249,396	295,983
Compensated absences	181,990	156,723
Total	<u>\$ 3,955,247</u>	<u>\$ 4,209,504</u>

The Town's long-term liabilities decreased by \$254,257 during the current fiscal year. This decrease was attributable to repayment of bonds, notes and capital leases.

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

Economic Factors and Next Year's Budgets and Rates

The Town Commission approved a millage rate of 4.2750 for Fiscal Year 2018. The millage rate for Fiscal Year 2017 was 4.1584. The taxable value of real property increased by 6.88% percent for Fiscal Year 2017 and is expected to increase in Fiscal Year 2018.

Other Factors

The Town is close to build out as far as vacant home sites are concerned; however, we are continuing to see trends toward major remodeling and rebuilding on existing home sites. The Town experienced a 25% increase in the number of total inspections performed, a 155% increase for home renovations over \$25,000 and a 100% increase in pool installations over FY16. We anticipate this trend to continue into fiscal year 2018.

Several cost increases are anticipated in FY 2018 due to salary and insurance increases and increases to the general operating expenses of the Town. Capital outlay expenditures are expected to increase due to the purchase of an additional Police vehicle, and Police safety equipment, the purchase of an air cascade machine for the Fire Department; rebuilding two (2) of the dune crossover's, repairs to the Ryckman House roof and windows, repairs to the Gazebo in Ryckman Park, upgrades to the Town Pier, and \$50,000 toward new playground equipment. The Town has committed to continue to mil and pave 1 mile of Town road each year and to make incremental transfers into our long term capital fund for future improvements to Town Hall and town infrastructure.

Requests for Information

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

TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2017

ASSETS	
Cash and cash equivalents	\$ 2,250,680
Investments	430,126
Receivables, net	139,213
Due from other governments	78,458
Prepays	69,897
Capital assets:	
Non-depreciable capital assets	897,742
Other capital assets, net of depreciation	<u>7,727,042</u>
Total assets	<u><u>\$ 11,593,158</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u><u>\$ 397,812</u></u>
LIABILITIES	
Accounts payable	\$ 29,893
Accrued payroll and employee benefits	48,722
Customer deposits	4,430
Unearned revenue	6,541
Accrued interest payable	24,978
Noncurrent liabilities:	
Due within one year:	
Bonds and notes payable	173,000
Capital leases	69,332
Compensated absences	90,995
Due in more than one year:	
Bonds and notes payable	3,350,861
Capital leases	180,064
Compensated absences	90,995
Net OPEB obligation	6,000
Net pension liability	<u>1,187,126</u>
Total liabilities	<u><u>\$ 5,262,937</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u><u>\$ 85,867</u></u>
NET POSITION	
Net investment in capital assets	\$ 5,562,346
Restricted for:	
Debt service	21,772
Capital projects	23,358
Law enforcement	14,157
Building department education	1,739
Unrestricted	<u>1,018,794</u>
Total net position	<u><u>\$ 6,642,166</u></u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 898,463	\$ 23,410	\$ 21,824	\$ -	\$ (853,229)
Public safety	1,444,594	291,404	249	8,286	(1,144,655)
Physical environment	400,301	52,337	37,433	743	(309,788)
Culture and recreation	95,907	17,690	873	-	(77,344)
Interest on long-term debt	183,099	-	-	-	(183,099)
Total governmental activities	<u>\$ 3,022,364</u>	<u>\$ 384,841</u>	<u>\$ 60,379</u>	<u>\$ 9,029</u>	<u>(2,568,115)</u>
General revenues:					
Property taxes					1,757,888
Sales and use taxes					304,906
Franchise and utility taxes					237,202
Public service taxes					304,862
Insurance premium taxes					36,787
State revenue sharing					80,766
Investment earnings (loss)					4,722
Miscellaneous revenues					22,351
Total general revenues and transfers					<u>2,749,484</u>
Change in net position					181,369
Net position - beginning					6,460,797
Net position - ending					<u>\$ 6,642,166</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	<u>General</u>	<u>Building Department</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 1,281,530	\$ -	\$ 46,750	\$ 747,838	\$ 174,562	\$ 2,250,680
Investments	430,126	-	-	-	-	430,126
Receivables, net	139,213	-	-	-	-	139,213
Due from other governments	78,458	-	-	-	-	78,458
Due from other funds	49,972	-	-	-	-	49,972
Prepaid items	69,897	-	-	-	-	69,897
Total assets	<u>\$ 2,049,196</u>	<u>\$ -</u>	<u>\$ 46,750</u>	<u>\$ 747,838</u>	<u>\$ 174,562</u>	<u>\$ 3,018,346</u>
LIABILITIES						
Accounts payable	\$ 24,943	\$ -	\$ -	\$ -	\$ 4,950	\$ 29,893
Accrued liabilities	46,619	2,103	-	-	-	48,722
Customer deposits	4,430	-	-	-	-	4,430
Unearned revenue	6,541	-	-	-	-	6,541
Due to other funds	-	49,972	-	-	-	49,972
Total liabilities	<u>82,533</u>	<u>52,075</u>	<u>-</u>	<u>-</u>	<u>4,950</u>	<u>139,558</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	62,670	-	-	-	-	62,670
FUND BALANCES						
Nonspendable:						
Prepaid items	69,897	-	-	-	-	69,897
Restricted for:						
Debt service	-	-	46,750	-	-	46,750
Historic preservation	-	-	-	6,661	-	6,661
Stormwater construction	-	-	-	710,819	-	710,819
Law enforcement	-	-	-	-	1,429	1,429
Law enforcement education	-	-	-	-	12,728	12,728
Building department education	-	-	-	-	1,739	1,739
Old Town Hall	-	-	-	-	16,697	16,697
Committed to:						
Stormwater utility	-	-	-	-	137,019	137,019
Assigned to:						
Capital improvements	-	-	-	30,308	-	30,308
Unassigned	1,834,096	(52,075)	-	50	-	1,782,071
Total fund balances	<u>1,903,993</u>	<u>(52,075)</u>	<u>46,750</u>	<u>747,838</u>	<u>169,612</u>	<u>2,816,118</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,049,196</u>	<u>\$ -</u>	<u>\$ 46,750</u>	<u>\$ 747,838</u>	<u>\$ 174,562</u>	<u>\$ 3,018,346</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

Fund balances - total governmental funds \$ 2,816,118

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

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

Total governmental capital assets	13,439,643	
Less: accumulated depreciation	<u>(4,814,859)</u>	8,624,784

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

Net pension liability	(1,187,126)	
Deferred outflows related to pensions	397,812	
Deferred inflows related to pensions	<u>(85,867)</u>	(875,181)

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

62,670

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

Bonds and notes payable	(3,567,470)	
Capital leases payable	(249,396)	
Loss on refunding of debt	43,609	
Accrued interest payable	(24,978)	
Net OPEB obligation	(6,000)	
Compensated absences	<u>(181,990)</u>	(3,986,225)

Net position of governmental activities \$ 6,642,166

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

TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Building Department	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental Funds
Revenues						
Taxes	\$ 2,194,634	\$ -	\$ 333,568	\$ -	\$ -	\$ 2,528,202
Licenses and permits	14,873	1,095	-	-	431	16,399
Intergovernmental	404,988	-	-	-	-	404,988
Charges for services	36,125	119,420	-	-	52,337	207,882
Fines and forfeitures	9,390	6,136	-	-	471	15,997
Interest revenues (loss)	4,722	-	-	-	-	4,722
Miscellaneous	36,516	-	-	9,693	1,499	47,708
Total revenues	<u>2,701,248</u>	<u>126,651</u>	<u>333,568</u>	<u>9,693</u>	<u>54,738</u>	<u>3,225,898</u>
Expenditures						
Current:						
General government	667,006	-	-	-	-	667,006
Public safety	1,189,605	130,192	-	-	1,161	1,320,958
Parks and recreation	9,586	-	-	-	569	10,155
Physical environment	246,690	-	-	1,208	23,222	271,120
Capital outlay	238,245	-	-	580,845	117,670	936,760
Debt service						
Principal	77,540	-	231,000	-	-	308,540
Interest and fiscal charges	16,383	-	168,060	-	-	184,443
Debt issuance costs	-	-	67,235	-	-	67,235
Payment to bond refunding escrow agent	-	-	1,220,213	-	-	1,220,213
Total expenditures	<u>2,445,055</u>	<u>130,192</u>	<u>1,686,508</u>	<u>582,053</u>	<u>142,622</u>	<u>4,986,430</u>
Excess (deficiency) of revenues over (under) expenditures	<u>256,193</u>	<u>(3,541)</u>	<u>(1,352,940)</u>	<u>(572,360)</u>	<u>(87,884)</u>	<u>(1,760,532)</u>
Other financing sources (uses)						
Transfers in	18,000	-	128,598	32,000	-	178,598
Transfers out	(160,598)	(18,000)	-	-	-	(178,598)
Issuance of debt	30,953	-	1,184,762	-	-	1,215,715
Total other financing sources (uses)	<u>(111,645)</u>	<u>(18,000)</u>	<u>1,313,360</u>	<u>32,000</u>	<u>-</u>	<u>1,215,715</u>
Net change in fund balances	<u>144,548</u>	<u>(21,541)</u>	<u>(39,580)</u>	<u>(540,360)</u>	<u>(87,884)</u>	<u>(544,817)</u>
Fund balances, beginning of year	1,759,445	(30,534)	86,330	1,288,198	257,496	3,360,935
Fund balances, end of year	<u>\$ 1,903,993</u>	<u>\$ (52,075)</u>	<u>\$ 46,750</u>	<u>\$ 747,838</u>	<u>\$ 169,612</u>	<u>\$ 2,816,118</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net change in fund balances - total governmental funds	\$ (544,817)
Differences in amounts reported for governmental activities in the statement of activities are:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital outlay expenditures	936,760
Depreciation expense	(502,675)
Bond and loan proceeds are reported as financing sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net position. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net position. These amounts are as follows:	
Proceeds from issuance of long-term debt	(1,215,715)
Principal repayment of general long-term debt	1,498,540
In the statement of activities, only the gain/loss on sale/disposal of capital assets is reported. However, in governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold/disposed.	
	(3,840)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements:	
Collection of grant receivable reported as deferred inflow in prior year	(29,421)
Net payments on unavailable receivable	7,256
Governmental funds report contributions to defined benefit pension plans as expenditures. However, in the Statement of Activities, the amount contributed to defined benefit pension plans reduces future net pension liability. Also included in pension expense in the Statement of Activities are amounts required to be amortized.	
Change in net pension liability and deferred inflows/outflows related to pensions	31,991
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. These adjustments are as follows:	
Change in accrued interest on long-term debt	31,557
Change in compensated absences liability	(25,267)
Change in net position of governmental activities	<u>\$ 181,369</u>

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

TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,201,333	\$ 2,201,333	\$ 2,194,634	\$ (6,699)
Licenses and permits	14,550	14,550	14,873	323
Intergovernmental	251,363	369,640	404,988	35,348
Charges for services	31,649	31,649	36,125	4,476
Fines and forfeitures	11,150	11,150	9,390	(1,760)
Interest revenues	1,850	1,850	4,722	2,872
Miscellaneous	40,250	40,250	36,516	(3,734)
Total revenues	<u>2,552,145</u>	<u>2,670,422</u>	<u>2,701,248</u>	<u>30,826</u>
Expenditures				
Current:				
General Government:				
Legislative	104,453	97,053	92,315	4,738
Executive	139,118	139,518	139,322	196
Finance	101,680	92,680	91,245	1,435
Legal	77,575	77,575	77,111	464
Grants & special projects	26,000	13,000	12,555	445
Contingency and other	274,883	254,819	254,458	361
Public Safety:				
Police	1,052,584	1,189,207	1,149,293	39,914
Fire	208,925	332,206	331,713	493
Code enforcement	16,135	10,135	7,280	2,855
Parks and recreation	11,525	11,525	9,586	1,939
Physical environment	288,670	289,234	280,177	9,057
Total expenditures	<u>2,301,548</u>	<u>2,506,952</u>	<u>2,445,055</u>	<u>61,897</u>
Excess (deficiency) of revenues over (under) expenditures	<u>250,597</u>	<u>163,470</u>	<u>256,193</u>	<u>92,723</u>
Other financing sources (uses)				
Transfers in	18,000	18,000	18,000	-
Transfers out	(246,121)	(171,598)	(160,598)	11,000
Proceeds from sale of capital assets	250	250	-	(250)
Issuance of debt	33,000	33,000	30,953	(2,047)
Total other financing sources (uses)	<u>(194,871)</u>	<u>(120,348)</u>	<u>(111,645)</u>	<u>8,703</u>
Net change in fund balances	<u>55,726</u>	<u>43,122</u>	<u>144,548</u>	<u>101,426</u>
Fund balances, beginning of year	1,759,445	1,759,445	1,759,445	-
Fund balances, end of year	<u>\$ 1,815,171</u>	<u>\$ 1,802,567</u>	<u>\$ 1,903,993</u>	<u>\$ 101,426</u>

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

TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUIDLING DEPARTMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Licenses and permits	\$ 250	\$ 250	\$ 1,095	\$ 845
Charges for services	102,800	102,800	119,420	16,620
Fines and forfeitures	2,000	2,000	6,136	4,136
Total revenues	<u>105,050</u>	<u>105,050</u>	<u>126,651</u>	<u>21,601</u>
Expenditures				
Current:				
Public Safety:				
Building Department	142,776	142,776	130,192	12,584
Total expenditures	<u>142,776</u>	<u>142,776</u>	<u>130,192</u>	<u>12,584</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(37,726)</u>	<u>(37,726)</u>	<u>(3,541)</u>	<u>34,185</u>
Other financing sources (uses)				
Transfers out	(18,000)	(18,000)	(18,000)	-
Net change in fund balances	<u>(55,726)</u>	<u>(55,726)</u>	<u>(21,541)</u>	<u>34,185</u>
Fund balances, beginning of year	(30,534)	(30,534)	(30,534)	-
Fund deficits, end of year	<u>\$ (86,260)</u>	<u>\$ (86,260)</u>	<u>\$ (52,075)</u>	<u>\$ 34,185</u>

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

**TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017**

	Municipal Police Officers' Retirement Trust Fund
ASSETS	
Cash and cash equivalents with trustee	\$ 112,510
Investments, at fair value	
Mutual and pooled funds	2,978,962
Total assets	\$ 3,091,472
 NET POSITION	
Restricted for pensions	\$ 3,091,472

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

TOWN OF MELBOURNE BEACH, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Municipal Police Officers' Retirement Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 223,500
Plan members	28,084
State - insurance premium taxes	36,787
Total contributions	<u>288,371</u>
Investment earnings:	
Interest and dividends	71,486
Net appreciation (depreciation) in fair value of investments	275,019
Total investment earnings	<u>346,505</u>
Less: investment expense	<u>(17,157)</u>
Net investment income (loss)	329,348
 Total additions	 <u>617,719</u>
Deductions	
Benefit payments	268,593
Administrative expenses	14,945
Total deductions	<u>283,538</u>
 Change in net position	 <u>334,181</u>
 Net position restricted for pensions, beginning of year	 2,757,291
 Net position restricted for pensions, end of year	 <u><u>\$ 3,091,472</u></u>

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

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

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

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

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

Governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and pensions, are recorded only when payment is due.

Intergovernmental revenue, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property tax revenues are considered to be measurable and available only when cash is received by the government within 60 days after fiscal year-end. Long-term receivables are only considered available if expected to be collected within one year.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

The Town reports the following major governmental funds:

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

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

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

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

Additionally, the Town reports the following fiduciary fund:

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

- iv. Prior to October 1st, the budget is legally enacted through passage of a resolution.
- v. The Town Commission, by resolution, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Commission.
- vi. The Town Manager may make transfers within a department as long as the total budget for the department is not increased. Transfers of appropriations between departments require the approval of the Commission. The Town's Ordinance establishes the level at which expenditures may not exceed appropriations at the department level.
- vii. Every appropriation lapses at the close of the fiscal year.

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

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

(g) **Deposits and investments**—The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

(i) **Capital assets**—Capital assets include property, plant, equipment and infrastructure assets.

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

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

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

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

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

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

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

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

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

(b) **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**—Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

(3) **Property Tax Calendar:**

Under Florida law, the assessment of all properties and collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser. State laws regulating tax assessment are designed to ensure a consistent property valuation method statewide and permit municipalities to levy property taxes at a rate of up to 10 mills. For the fiscal year ended September 30, 2017, the millage rate assessed by the Town was 4.2750 per \$1,000.

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

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

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

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

Valuation Date:	January 1, 2016
Preliminary Tax Roll Date:	July 1, 2016
Commission Tax Rate Hearings:	September 2016
Levy Date:	November 1, 2016
Due Date:	March 31, 2017
Lien Date:	June 1, 2017

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

(4) Deposits and Investments:

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

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

As of September 30, 2017, all Town deposits were covered by private bank acquired insurance, Securities Investor Protection Corporation (SIPC) insurance, private broker/dealer acquired insurance, Federal Depository Insurance Corporation (FDIC) insurance, and/or the State of Florida collateral pool established under the Florida Security for Public Deposits Act (the Act). The Act established guidelines for qualification and participation by banks and savings associations, procedures for administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the qualified depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to 125% may be required if deemed necessary.

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

The Town is a member of Florida PRIME, the Local Government Surplus Funds Trust Fund Investment Pool (the Pool), that is administered by the State Board of Administration of Florida (SBA). This pool is a “2a-7 like” pool, which has the characteristics of a money market fund. Therefore, the fair value of investments held at the State Board of Administration Pool is the same as the fair value of the pooled shares. The Regulatory Oversight of the Local Government Surplus Funds Trust fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules for the State Board of Administration. These rules provide guidance and establish the general procedure for the administration of the Local Government Surplus Funds Trust Fund. The Local Government Surplus Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedure consistent with the requirements for a 2a-7 fund. As of September 30, 2017, the investment pool had a weighted average of 51 days to maturity and was rated AAAM by Standard & Poor’s.

The Town held no assets or investments carried at fair value at September 30, 2017, and subject to the required disclosures of GASB 72.

Town Investment Portfolio

As of September 30, 2017, the Town’s governmental investment portfolio is not subject to GASB 72 disclosures and is composed of the following investments:

Investment Type	Credit Quality Rating (S&P)	Carrying Value	Maturities (in Years)		
			Less Than 1	1-5	Over 5
SBA funds	AAAM	\$ 430,126	\$ 430,126	-	-

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

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

Custodial Credit Risk: All demand deposits are held with qualified public depositories, as defined above. In the case of investments, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2017, the Town's investment of \$430,126 in SBA funds is backed by the full faith and credit of the State of Florida, or explicitly guaranteed by the State of Florida.

Municipal Police Officers' Retirement Trust Fund Investment Portfolio

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

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

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturities (in years) Less Than 1</u>	<u>Credit Rating Range (S&P)</u>	<u>Fair Value Hierarchy Classification</u>
Mutual funds – fixed income	\$ 887,466	\$ 887,466	NR	Level 1
Mutual funds – equity	2,091,496	2,091,496	NR	Level 1
Total Portfolio	<u>\$ 2,978,962</u>	<u>\$ 2,978,962</u>		

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. The established performance objectives of the Pension Plan require investment maturities to provide sufficient liquidity to pay obligations as they become due. At September 30, 2017, all investments were held in cash or other assets that could be liquidated at any time.

Credit Risk: Credit risk is the risk that a debt issuer or other counter-party to an investment will not fulfill its obligations. The Pension Plan utilizes portfolio diversification in order to limit investments to the highest rated securities as rated by nationally recognized rating agencies. All investments are rated within the investment policy guidelines at September 30, 2017.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Police Pension trust fund policy does not allow more than five (5) percent of its assets in the common stock, capital stock, or convertible securities of any one issuing company. At September 30, 2017, the investment portfolios met these limitations.

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At September 30, 2017, the investment portfolio had no foreign investments.

(5) **Accounts Receivable:**

The Town's receivables consist of \$139,213 at September 30, 2017, all of which was included in the general fund and governmental activities. There was no allowance for doubtful accounts at September 30, 2017.

Of the above amount, \$62,670 is due from the Melbourne Beach Volunteer Fire Department, Inc. for their share of the total purchase price and debt requirements for a vehicle (50-percent share) and fire truck (100-percent share). These receivables are scheduled out relative to the respective capital lease obligations and were not received within 60 days of year-end and therefore have been considered unavailable and recorded as deferred inflows in the general fund.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

(6) Capital Assets:

Capital asset activity for the fiscal year ended September 30, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated –				
Land	\$ 897,742	\$ -	\$ -	\$ 897,742
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>897,742</u>	<u>-</u>	<u>-</u>	<u>897,742</u>
Capital assets, being depreciated –				
Buildings and improvements	3,669,447	701,323	(9,687)	4,361,083
Equipment	1,892,470	235,437	(15,144)	2,112,763
Infrastructure	6,068,055	-	-	6,068,055
Total capital assets, being depreciated	<u>11,629,972</u>	<u>936,760</u>	<u>(24,831)</u>	<u>12,541,901</u>
Less: accumulated depreciation	<u>(4,333,175)</u>	<u>(502,675)</u>	<u>20,991</u>	<u>(4,814,859)</u>
Total capital assets, being depreciated, net	<u>7,296,797</u>	<u>434,085</u>	<u>(3,840)</u>	<u>7,727,042</u>
Governmental activities capital assets, net	<u>\$ 8,194,539</u>	<u>\$ 434,085</u>	<u>\$ (3,840)</u>	<u>\$ 8,624,784</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General governmental	\$ 231,341
Public safety	123,636
Physical environment	61,946
Culture and recreation	85,752
Total depreciation expense - governmental activities	<u>\$ 502,675</u>

(7) Capital Leases:

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

Asset:	
Equipment	\$ 612,883
Accumulated depreciation	(393,777)
Net book value of leased assets	<u>\$ 219,106</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 69,332	\$ 13,808	\$ 83,140
2019	62,047	9,776	71,823
2020	42,234	6,242	48,476
2021	44,459	4,017	48,476
2022	31,324	1,676	33,000
Total	<u>\$ 249,396</u>	<u>\$ 35,518</u>	<u>\$ 284,915</u>

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

(8) Long-Term Debt:

Notes and bonds payable at September 30, 2017, are comprised of the following obligations:

Series 2017 Florida Municipal Loan Council Revenue Refunding Bonds, dated September 20, 2017, originally issued to partially defease the Florida Municipal Loan Council Revenue Bonds, Series 2005B, due in payments of principal plus interest ranging from 3.00% to 5.00% semiannually on April 1 and October 1 each year until final maturity on October 1, 2029.	\$ 1,050,000
Series 2009 Stormwater Improvement note payable, dated August 20, 2009, due in payments of principal plus interest at 4.23% semiannually on January 1 and July 1 through July 1, 2028. Repayment of loan balance is secured by a pledge of real property ad valorem tax revenues assessed at 0.9999 mills on all property within the Town.	2,362,000
Total long-term debt, governmental activities	<u><u>\$ 3,412,000</u></u>

The Town was in compliance with all applicable debt covenants as of and for the year ended September 30, 2017.

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

Year Ending September 30	Principal	Interest	Total
2018	\$ 173,000	\$ 124,770	\$ 297,770
2019	251,000	140,095	391,095
2020	258,000	129,638	387,638
2021	271,000	118,411	389,411
2022	284,000	106,245	390,245
2023-2027	1,598,000	329,882	1,927,882
2028-2032	577,000	29,707	606,707
Total	<u><u>\$ 3,412,000</u></u>	<u><u>\$ 978,748</u></u>	<u><u>\$ 4,390,748</u></u>

For the fiscal year ended September 30, 2017, a summary of the long-term liability transactions for the Town is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Notes and bonds payable	\$ 3,783,000	\$ 1,050,000	\$ (1,421,000)	\$ 3,412,000	\$ 173,000
Less deferred amounts:					
Original issue premium	23,693	134,762	(2,985)	155,470	-
Original issue (discount)	(49,895)	-	6,286	(43,609)	-
Total notes and bonds payable	<u>3,756,798</u>	<u>1,184,762</u>	<u>(1,417,699)</u>	<u>3,523,861</u>	<u>173,000</u>
Capital leases	295,983	30,953	(77,540)	249,396	69,332
Compensated absences	156,723	64,399	(39,132)	181,990	90,995
Governmental activities –					
Total long-term liabilities	<u><u>\$ 4,209,504</u></u>	<u><u>\$ 1,280,114</u></u>	<u><u>\$ (1,534,371)</u></u>	<u><u>\$ 3,955,247</u></u>	<u><u>\$ 333,327</u></u>

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

The outstanding balances between funds are short-term loans to cover short-term cash flow needs and expected to be repaid in full over the course of the next fiscal year. Individual fund interfund receivables and payables for the primary government at September 30, 2017, are comprised of the following:

	Due From Other Funds	Due to Other Funds
Governmental Activities:		
General Fund:		
Building Department Fund	\$ 49,972	\$ -
Building Department Fund:		
General Fund	-	49,972
	\$ 49,972	\$ 49,972
Total – All Funds	\$ 49,972	\$ 49,972

For the year ended September 30, 2017, interfund transfers consisted of the following:

	Transfer From	Transfer To
Governmental Activities:		
General Fund:		
Building Department Fund	\$ 18,000	\$ 160,598
Debt Service Fund		
Capital Projects Fund		
Building Department Fund:		
General Fund	-	18,000
Debt Service Fund:		
General Fund	128,598	-
Capital Projects Fund:		
General Fund	32,000	-
	\$ 178,598	\$ 178,598
Total – All Funds	\$ 178,598	\$ 178,598

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

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

A. Deferred Compensation Plan

The Town offers employees' participation in an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by Nationwide Retirement Solutions, P.O. Box 182797, Columbus, OH, 43218-2797. Annual contributions are limited to the amount allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan. The Town may also contribute to the plan for participants; these contributions vest at the time such contributions are made to the plan. For the year ended September 30, 2017, employee contributions were \$23,628 and employer contributions were \$7,096 to the 457 plan.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

B. Florida Retirement System

Plan Description and Administration

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

In addition, all regular employees of the Town are eligible to enroll as members of the Retiree Health Insurance Subsidy (HIS) Program. The HIS is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Benefits Provided and Employees Covered

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

Financial Statements

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

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

Contributions

The Town participates in certain classes of FRS membership. Each class has descriptions and contribution rates in effect at September 30, 2017, as follows (contribution rates are in agreement with the actuarially determined rates):

FRS Membership Plan & Class	Employee Contribution Rate	Employer Contribution Rate
Regular Class	3.00%	7.92%

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

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

	2017	2016	2015
Town Contributions – FRS	\$ 21,353	\$ 20,010	\$ 14,076
Town Contributions – HIS	5,953	5,845	4,571
Employee Contributions – FRS	10,759	10,594	10,883

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

At September 30, 2017, the Town reported a liability of \$275,611 for its proportionate share of the net pension liability, \$155,569 related to FRS and \$120,042 to HIS. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, as actuarially determined. At June 30, 2017 and June 30, 2016, the Town's FRS proportion was 0.000525938% and 0.000564726%, respectively. At June 30, 2017 and June 30, 2016, the Town's HIS proportion was 0.001122682% and 0.001179170%, respectively. For the year ended September 30, 2017, the Town's recognized pension expense of \$25,332 from FRS and \$12,275 from HIS, for a grand total of \$37,607.

Deferred outflows/inflows related to pensions:

At September 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,277	\$ (862)	\$ -	\$ (250)
Changes of assumptions	52,282	-	16,874	(10,380)
Net difference between projected and actual investment earnings	-	(3,855)	67	-
Change in Town's proportionate share	2,006	(5,916)	18,873	(5,233)
Contributions subsequent to measurement date	4,854	-	1,389	-
	<u>\$ 73,419</u>	<u>\$ (10,633)</u>	<u>\$ 37,203</u>	<u>\$ (15,863)</u>

The above amounts for deferred outflows of resources for contributions related to pensions resulting from Town contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

2018	\$ 12,605
2019	25,976
2020	19,598
2021	6,894
2022	11,460
Thereafter	1,350
Total	<u>\$ 77,883</u>

Actuarial assumptions:

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS investments is 7.10%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.58% was used to determine the total pension for the program. This rate decreased from the prior year rate, which was 2.85%. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

Long-term expected rate of return:

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

Asset Class	Target Allocation	Long-Term Arithmetic Expected Rate of Return
Cash	1.0%	3.0%
Fixed income	18.0%	4.5%
Global equities	53.0%	7.8%
Real estate	10.0%	6.6%
Private equity	6.0%	11.5%
Strategic investments	12.0%	6.1%
Total	100.0%	

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

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

Plan	Current Discount Rate	NPL with 1% Decrease	NPL at Current Discount Rate	NPL with 1% Increase
FRS	7.10%	\$ 281,570	\$ 155,569	\$ 50,959
HIS	3.58%	136,984	120,042	105,931

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

C. Municipal Police Officers' Retirement Trust Fund

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

Plan Description and Administration

All full-time police officers are eligible to participate in the Police Officers' Pension Plan (the Plan). This is a single employer, defined benefit pension plan. Benefit provisions and other requirements of the plan are established by Florida Statutes and Town Ordinance 2012-02. They are accounted for as pension trust funds and reported on herein as part of the Town's reporting entity. The plan is administered through its own Board of Trustees. Pension plan data is provided from the respective actuarial reports as of October 1, 2015.

Benefits Provided and Employees Covered

The Plan provides retirement, disability and death benefits to plan participants and beneficiaries. No cost of living adjustments are provided to retirees and beneficiaries. The Plan's Board of Trustees has contracted with an actuary to provide an actuarial valuation of each plan as of October 1 of every other year. Current membership in the Plan was composed of the following at October 1, 2016:

Inactive participants	-
Active participants	9
Retired participants	<u>9</u>
Total current membership	<u><u>18</u></u>

Benefits vest after ten years of service. Participants may retire upon attainment of the earlier of, age 55 and completion of ten years of credited service, or age 52 and 20 years of credited service. Retirees are entitled to 3.0% of average monthly earnings times years of credited service. The plan also provides service-incurred disability compensation and early retirement. Early retirement may be taken at age 50 and 10 years of credited service with reduced benefits.

Financial Statements

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

Contributions

The participant contribution rates for the Plan are established by and may be amended by the Town Commission. Employees covered under the plan are required to make contributions of 5% of their compensation. The Town's annual required contribution for the current year was determined as part of the October 1, 2016 actuarial valuations. The Town is required under the Florida Protection of Public Employee Retirement Benefits Act to contribute a payment which represents annual normal cost plus amortization of the unfunded actuarial accrued liability over various periods as prescribed by law. The Town's contributions (and if applicable, any liquidations of a net pension obligation) to the Plan are funded by the General Fund.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

Contributions to the Plan for the year ended September 30, 2017, were as follows:

Employee contributions	\$ 28,084
Town contributions	223,500
State contributions	<u>36,787</u>
Total contributions	<u><u>\$ 288,371</u></u>

Investment Policy

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

Net Pension Liability

At September 30, 2017, the components of the net pension liability for the Plan were as follows:

Total pension liability	\$ 4,002,987
Plan fiduciary net position	<u>(3,091,472)</u>
Net pension liability	<u><u>\$ 911,515</u></u>
Plan fiduciary net position as percentage of total pension liability	77.23%

The total pension liability was determined by an actuarial valuation as of October 1, 2016, with a measurement date of September 30, 2017, using the following actuarial assumptions to all measurement periods.

Inflation	2.50%
Salary increases	Service based
Discount rate	7.65%
Investment rate of return	7.65%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

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

Discount rate:

The discount rate used to measure the total pension liability for the pension plan was 8.00%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension liability:

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

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a - b)</u>
Beginning Balance	\$ 3,630,284	\$ 2,757,291	\$ 872,993
Changes for year:			
Service cost	92,471	-	92,471
Interest	287,077	-	287,077
Differences between expected/actual experience	73,071	-	73,071
Change in assumptions	188,677	-	188,677
Contributions – employer	-	223,500	(223,500)
Contributions – state	-	36,787	(36,787)
Contributions – employee	-	28,084	(28,084)
Net investment income	-	329,348	(329,348)
Benefit payments, including refunds	(268,593)	(268,593)	-
Administrative expenses	-	(14,945)	14,945
Net changes	<u>372,703</u>	<u>334,181</u>	<u>(38,522)</u>
Ending Balance	<u>\$ 4,002,987</u>	<u>\$ 3,091,472</u>	<u>\$ 911,515</u>

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

D. Other Post-Employment Benefits (OPEB)

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 6,000	\$ 6,000	\$ 6,000
Interest on Net OPEB Obligation	-	-	-
Adjustment to Annual Required Contribution	-	-	-
Annual OPEB Cost	6,000	6,000	6,000
Town Contributions Made	(3,000)	(6,000)	(6,000)
Increase (Decrease) in Net OPEB Obligation	3,000	-	-
Net OPEB Obligation (beginning of year)	3,000	3,000	3,000
Net OPEB Obligation (end of year)	<u>\$ 6,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>

Three-year trend information is summarized as follows:

<u>Plan Fiscal Year Ended September 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 6,000	100%	\$ 6,000
2016	3,000	100%	3,000
2015	3,000	100%	3,000

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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

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

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

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

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

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

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

(11) **Risk Management:**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in coverage from the prior year.

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

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

(12) **Commitments and Contingencies:**

The Town is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2017. The outcomes of established claims are included in these financial statements. In the opinion of the Town's legal counsel, no legal proceedings are pending or threatened against the Town which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

(13) **Recent Accounting Pronouncements:**

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

- (a) GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015, which establishes standards for recognizing and measuring liabilities, deferred outflows or resources, deferred inflows of resources, and expense/expenditures. GASB 75 seeks to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017.
- (b) GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, in March 2016, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 enhances comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The provisions in GASB 81 are effective for fiscal years beginning after December 15, 2016.
- (c) GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, in November 2016. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs), which are legally enforceable liabilities associated with the retirement of a tangible capital asset. The provisions in GASB 81 are effective for periods beginning after June 15, 2018.
- (d) GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB 84 improves guidance regarding the identification and reporting of fiduciary activities. The provisions in GASB 84 are effective for periods beginning after December 15, 2018.
- (e) GASB issued Statement No. 85, *Omnibus 2017*, in March 2017. GASB 85 improves guidance addressing several different accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements. The provisions in GASB 85 are effective for periods beginning after June 15, 2017.
- (f) GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, in May 2017. GASB 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources. The provisions in GASB 86 are effective for periods beginning after June 15, 2017.

TOWN OF MELBOURNE BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

- (g) GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions in GASB 87 are effective for periods beginning after December 15, 2019.

(14) **Deficit Fund Balance:**

At September 30, 2017, the Building Department Fund reported a fund balance deficit of (\$52,075). This cumulative deficit was the result of expenditures exceeding revenues in the current year and is expected to be recovered from subsequent periods' revenues or general fund transfers.

**TOWN OF MELBOURNE BEACH, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - OPEB
 SEPTEMBER 30, 2017**

Other Post Employment Benefit Plan

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

**TOWN OF MELBOURNE BEACH, FLORIDA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
 SEPTEMBER 30, 2017**

Other Post-Employment Benefit Plan				
Year Ended September 30	Annual Required Contribution	Town Contribution	Percentage Contribution	
2017	\$ 6,000	\$ 3,000	50	
2016	6,000	6,000	100	
2015	6,000	6,000	100	
2014	5,000	6,000	120	
2013	6,000	6,000	100	
2012	7,000	7,000	100	

TOWN OF MELBOURNE BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
SEPTEMBER 30, 2017

For the year ended September 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service cost	\$ 92,471	\$ 90,773	\$ 95,129	\$ 92,542
Interest	287,077	274,273	266,454	257,604
Differences between expected/actual experience	73,071	(80,473)	(3,954)	-
Changes of assumptions	188,677	138,126	-	-
Benefit payments	(268,593)	(260,105)	(250,963)	(233,262)
Net change in total pension liability	372,703	162,594	106,666	116,884
Total pension liability – beginning	3,630,284	3,467,690	3,361,024	3,244,140
Total pension liability – ending (a)	<u>\$ 4,002,987</u>	<u>\$ 3,630,284</u>	<u>\$ 3,467,690</u>	<u>\$ 3,361,024</u>
Total Fiduciary Net Position				
Contributions – employer	\$ 223,500	\$ 186,596	\$ 222,353	\$ 200,907
Contributions – state	36,787	32,271	-	32,044
Contributions – employee	28,084	23,298	22,464	21,403
Net investment income	329,348	221,491	(22,583)	255,971
Benefit payments	(268,593)	(260,105)	(250,963)	(233,262)
Administrative expense	(14,945)	(16,803)	(23,280)	(8,111)
Net change in plan fiduciary net position	334,181	186,748	(52,009)	268,952
Plan fiduciary net position – beginning	2,757,291	2,570,543	2,622,552	2,353,600
Plan fiduciary net position – ending (b)	<u>\$ 3,091,472</u>	<u>\$ 2,757,291</u>	<u>\$ 2,570,543</u>	<u>\$ 2,622,552</u>
Net pension liability – ending (a) - (b)	<u>\$ 911,515</u>	<u>\$ 872,993</u>	<u>\$ 897,147</u>	<u>\$ 738,472</u>
Plan fiduciary net position as a percentage of the total pension liability	77.23%	75.95%	74.13%	78.03%
Covered payroll	\$ 561,681	\$ 465,956	\$ 467,561	\$ 428,060
Net pension liability as a percentage of covered payroll	162.28%	187.36%	191.88%	172.52%

* 10 years of data will presented as it becomes available

**TOWN OF MELBOURNE BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
SEPTEMBER 30, 2017**

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Contributions in Relation to ADC</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Contributions as Percentage of Employee Payroll</u>
2017	\$ 259,272	\$ 260,287	\$ (1,015)	\$ 561,681	46.34%
2016	218,394	218,867	(473)	465,956	46.97%
2015	222,353	222,353	-	467,561	47.56%
2014	232,950	232,950	-	428,060	54.42%

* 10 years of data will presented as it becomes available

Notes to Schedule:

Valuation Date: 10/01/2015

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

Methods and assumptions used to determine contribution rates:

Funding Method: Entry age normal actuarial cost method
Amortization Method: Level percentage of pay, closed
Remaining Amortization Period: 26 years (as of 10/1/2015)
Asset Valuation Method: Each year, the prior actuarial value of assets is brought forward utilizing the historical geometric four year average market value return (net of fees). It is possible that over time this technique will produce an insignificant bias above or below market value of assets.

Inflation: 2.00% per year.
Salary Increases: 6.00% per year.
Interest Rate: 8.00% per year, compounded annually, net of investment-related expenses.
Payroll Growth: 0.90% for amortization of al UAAL bases prior to the 2011 benefit change. All bases after that point will be amortized using level-dollar amortization.

Retirement Age: Earlier of: 1) age 55 and 10 years of credited service, or 2) age 52 and 20 years of credited service, regardless of age. Also, any member who has reached Normal Retirement is assumed to continue employment for one additional year.

Termination Rates: See table below.
Disability Rates: See table below.
Mortality: RP-2000 Table with no projection – Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years).

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

**TOWN OF MELBOURNE BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
MUNICIPAL POLICE OFFICERS' RETIREMENT TRUST FUND
SEPTEMBER 30, 2017**

<u>For the Year Ended September 30</u>	<u>Annual Money- Weighted Rate of Return</u>
2017	11.96%
2016	8.64%
2015	-0.87%
2014	10.99%

* 10 years of data will presented as it becomes available

TOWN OF MELBOURNE BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – FRS/HIS
SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Florida Retirement System (FRS)				
Proportion of the net pension liability (NPL)	0.000525938%	0.000564726%	0.000570663%	0.000546111%
Proportionate share of the NPL	\$ 155,569	\$ 142,594	\$ 73,709	\$ 33,581
Covered payroll	358,623	352,113	362,777	245,833
Proportionate share of the NPL as percentage of covered payroll	43.38%	40.50%	20.32%	13.66%
Plan fiduciary net position as a percentage of the NPL	83.89%	84.88%	92.00%	96.09%
Health Insurance Subsidy Program (HIS)				
Proportion of the net pension liability (NPL)	0.001122682%	0.001179170%	0.001038277%	0.000861064%
Proportionate share of the NPL	\$ 120,042	\$ 137,427	\$ 105,888	\$ 80,512
Covered payroll	358,623	352,113	362,777	245,833
Proportionate share of the NPL as percentage of covered payroll	33.47%	39.03%	28.19%	32.57%
Plan fiduciary net position as a percentage of the NPL	1.64%	0.97%	0.50%	0.99%

* 10 years of data will presented as it becomes available

**TOWN OF MELBOURNE BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS – FRS/HIS
SEPTEMBER 30, 2017**

For the Plan Year ended June 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Florida Retirement System (FRS)				
Contractually required contribution	\$ 13,691	\$ 13,772	\$ 13,913	\$ 11,962
Contributions in relation to contractually required contribution	<u>13,691</u>	<u>13,772</u>	<u>13,913</u>	<u>11,962</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 358,623	\$ 352,113	\$ 362,777	\$ 245,833
Contributions as percentage of covered payroll	5.95%	5.68%	3.88%	4.87%
Health Insurance Subsidy Program (HIS)				
Contractually required contribution	\$ 5,942	\$ 6,044	\$ 3,969	\$ 2,950
Contributions in relation to contractually required contribution	<u>5,942</u>	<u>6,044</u>	<u>3,969</u>	<u>2,950</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 358,623	\$ 352,113	\$ 362,777	\$ 245,833
Contributions as percentage of covered payroll	1.66%	1.66%	1.26%	1.20%

* 10 years of data will presented as it becomes available

**TOWN OF MELBOURNE BEACH, FLORIDA
COMBINING BALANCE SHEET
NONMJAOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	Law Enforcement Forfeiture	Police Education	Police Donations	Building Education	Old Town Hall	Stormwater Utility	Total Nonmajor Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,429	\$ 8,809	\$ 3,919	\$ 1,739	\$ 16,697	\$ 141,969	\$ 174,562
Total assets	\$ 1,429	\$ 8,809	\$ 3,919	\$ 1,739	\$ 16,697	\$ 141,969	\$ 174,562
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,950	\$ 4,950
Total liabilities	-	-	-	-	-	4,950	4,950
FUND BALANCES							
Restricted for:							
Law enforcement	1,429	-	-	-	-	-	1,429
Law enforcement education	-	8,809	3,919	-	-	-	12,728
Building Department Education	-	-	-	1,739	-	-	1,739
Old Town Hall	-	-	-	-	16,697	-	16,697
Stormwater utility	-	-	-	-	-	137,019	137,019
Total fund balances	1,429	8,809	3,919	1,739	16,697	137,019	169,612
Total liabilities and fund balances	\$ 2,858	\$ 17,618	\$ 7,838	\$ 3,478	\$ 33,394	\$ 274,038	\$ 339,224

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

TOWN OF MELBOURNE BEACH, FLORIDA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Law Enforcement Forfeiture	Police Education	Police Donations	Building Education	Old Town Hall	Stormwater Utility	Total Nonmajor Governmental Funds
Revenues							
Licenses and permits	\$ -	\$ -	\$ -	\$ 431	\$ -	\$ -	\$ 431
Charges for services	-	-	-	-	-	52,337	52,337
Fines and forfeitures	-	471	-	-	-	-	471
Miscellaneous	-	-	249	-	1,250	-	1,499
Total revenues	-	471	249	431	1,250	52,337	54,738
Expenditures							
Current:							
Public safety	-	1,161	-	-	-	-	1,161
Parks and recreation	-	-	-	-	569	-	569
Physical environment	-	-	-	-	-	23,222	23,222
Capital outlay	-	-	-	-	-	117,670	117,670
Total expenditures	-	1,161	-	-	569	140,892	142,622
Net change in fund balances	-	(690)	249	431	681	(88,555)	(87,884)
Fund balances, beginning of year	1,429	9,499	3,670	1,308	16,016	225,574	257,496
Fund balances, end of year	\$ 1,429	\$ 8,809	\$ 3,919	\$ 1,739	\$ 16,697	\$ 137,019	\$ 169,612

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Melbourne Beach, Florida, (the Town) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 that we consider to be a significant deficiency, which is described in the following paragraph as item 2017-001.

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121 Executive Circle Daytona Beach, FL 32114-1180 Telephone: 386-257-4100	133 East Indiana Avenue DeLand, FL 32724-4329 Telephone: 386-738-3300	5931 NW 1st Place Gainesville, FL 32607-2063 Telephone: 352-378-1331	2477 Tim Gamble Place, Suite 200 Tallahassee, FL 32308-4386 Telephone: 850-386-6184
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2017-001 – Journal Entry Approvals

We noted the Town did not have a formal approval process for correcting or adjusting entries to help ensure that only proper entries are recorded in the Town's financial system. Specifically, we noted the Finance Manager has the ability both to create and post journal entries. While such process is not uncommon for an entity of the Town's size, we recommend the Town implement an additional review measure related to journal entries to help reduce the risk of inappropriate or erroneous journal entries. This additional layer of review, for example, could potentially consist of the Town Manager (or Town Clerk, in the absence of the Town Manager) reviewing all journal entries that have been recorded on a monthly basis for any unusual activity.

Compliance and Other Matters

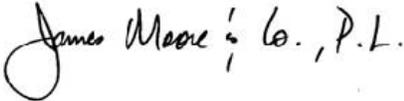
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

Town of Melbourne Beach, Florida's Response to Findings

The Town's responses to the findings identified in our audit are described starting on page 62. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Daytona Beach, Florida
March 28, 2018

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

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

Report on the Financial Statements

We have audited the financial statements of the Town of Melbourne Beach, Florida, as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 28, 2018.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 28, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No findings and recommendations have been repeated for two or more years and have not yet been fully corrected. The following is a summary of all findings and recommendations reported in our preceding annual financial audit report:

2016-001 – Segregation of Duties – Corrective action taken.

2016-002 – Investment Account Controls – Corrective action taken.

2016-003 – Reconciliation of Subsidiary Ledgers – Corrective action taken.

2016-004 – Prior Period Adjustment – Corrective action taken.

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2016-005 – Expenditures in Excess of Appropriations – Corrective action taken.

2016-006 IT Policies and Procedures – Corrective action taken.

2016-007 Capital Asset Inventory – Partial corrective action taken. See repeat comment 2017-002.

2016-008 Adoption of Annual Budget – Corrective action taken.

2016-009 OPEB Valuation – Corrective action taken.

Official Title and Legal Authority

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

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Town has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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

2017-002 – Capital Asset Inventory (Repeat Comment)

A comprehensive physical inventory of fixed assets has not been performed in recent years. We recommend the Town complete an inventory verification of fixed assets to ensure the assets recorded represent the assets in service, and that all capital assets in service have been appropriately recorded in the financial statements.

Annual Financial Report

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

Additional Matters

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

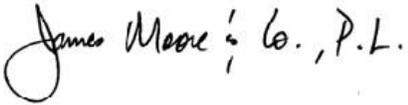
Town of Melbourne Beach, Florida's Response to Findings

The Town's responses to the findings identified in our audit are described starting on page 62. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Letter

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

Daytona Beach, Florida
March 28, 2018

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

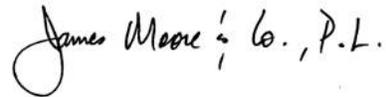
INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

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

We have examined the Town of Melbourne Beach, Florida's (the City) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2017. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2017, in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of risks of material noncompliance with those requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Town of Melbourne Beach, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.



Daytona Beach, Florida
March 28, 2018



Town of Melbourne Beach

March 28, 2018

MANAGEMENT'S RESPONSE TO FINDINGS

2017-001: Journal Entry Approval:

The Finance Department, Legislative Department and Executive Department all have one employee. As such, the Finance Department will provide journal entries to the Town Manager and Town Clerk for review on a monthly basis. Providing the entries to both departments will ensure that both are familiar with the normal journal entries posted by the Finance Department.

2017-002: Capital Asset Inventory:

The Finance Department will coordinate with other Department Heads to ensure that all assets listed on the Asset Inventory List are still in service.

A handwritten signature in blue ink that reads "Elizabeth Mascaro". The signature is written in a cursive style.

Elizabeth Mascaro
Finance Manager