

**CITY OF
INDIAN HARBOUR
BEACH, FLORIDA**

**Basic Financial
Statements and
Supplementary Information**

**Year ended
September 30, 2018**

City of Indian Harbour Beach, Florida

OFFICIAL DIRECTORY

September 30, 2018

ELECTED OFFICERS

| | |
|------------------|---|
| MAYOR: | David Panicola |
| DEPUTY MAYOR: | Scott Nickle |
| COUNCIL MEMBERS: | Gene Newberry James H. Nolan, Sr. Frank Guertin |

ADMINISTRATIVE

| | |
|----------------|------------|
| CITY MANAGER: | Mark Ryan |
| CITY ATTORNEY: | Karl Bohne |
| CITY CLERK: | Sue Frank |

TABLE OF CONTENTS

| | Page |
|---|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 22 |
| Statement of Activities | 23 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 24 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position | 25 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 26 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities | 27 |
| Statement of Fiduciary Net Position | 28 |
| Statement of Changes in Fiduciary Net Position | 29 |
| Notes to Financial Statements | 31 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund | 73 |
| Schedule of Changes in Total OPEB Liability and Related Ratios | 74 |
| Schedule of Net Pension Liability - Florida Municipal Police Officers' Retirement Fund | 75 |
| Schedule of Net Pension Liability - Police Officers' Supplemental Pension Plan | 76 |

TABLE OF CONTENTS (continued)

| | Page |
|---|------|
| Schedule of Proportionate Share of Net Pension Liability - Florida Retirement System | 77 |
| Schedule of Proportionate Share of Net Pension Liability - Health Insurance Subsidy | 78 |
| Schedule of Contributions - Florida Municipal Police Officers' Retirement Fund | 79 |
| Schedule of Contributions - Police Officers' Supplemental Pension Plan | 80 |
| Schedule of Contributions - Florida Retirement System | 81 |
| Schedule of Contributions - Health Insurance Supplement | 82 |
| Schedule of Investment Returns - Police Officers' Supplemental Pension Plan | 83 |
| Notes to Required Supplementary Information | 84 |
| SUPPLEMENTAL COMBINING FUND FINANCIAL STATEMENTS | |
| Nonmajor Governmental Funds - Combining Balance Sheet | 88 |
| Nonmajor Governmental Funds - Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 89 |
| Nonmajor Governmental Funds - Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual | 90 |
| COMPLIANCE ITEMS | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 92 |
| Management Letter | 94 |
| Independent Accountant's Report on Investment Compliance | 96 |

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Indian Harbour Beach
Indian Harbour Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the City of Indian Harbour Beach, Florida (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 City'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 City'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, the major fund, and the aggregate remaining fund information of the City as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of changes in total OPEB liability and related ratios, schedule of net pension liability, schedule of contributions, and budgetary comparison 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 City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund 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 fund 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 April 23, 2019 on our consideration of the City'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 solely 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 effectiveness of the City's 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 City's internal control over financial reporting and compliance.

April 23, 2019
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

City of Indian Harbour Beach, Brevard County, Florida
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2018

Management's Discussion and Analysis is intended to provide an objective analysis of the City of Indian Harbour Beach's (the "City") financial activities based on currently known facts, decisions, and conditions for the fiscal year ended September 30, 2018. This analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of financial activity, identify changes in financial position, and identify material deviations from the approved budget.

This MD&A should be read in conjunction with the City's financial statements, footnotes, and the Required Supplementary Information that is included in the Annual Financial Report.

Financial Highlights

- Government-wide total net position on September 30, 2018, was \$24,048,658, which is an increase of 1.7% or \$405,895. Of this amount, \$16,149,658 is invested in capital assets and \$7,409,654 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- Government-wide total revenues were \$8,212,996, while government-wide total expenses were \$7,807,101. Total revenues increased by 9.2% or \$690,752 while total expenses increased by 2.1% or \$157,966.
- Due to GASB Statement No. 75 implementation, the City's October 1, 2017, net position has been restated as \$23,642,763. This restatement recognizes the cumulative decrease of \$11,665 for the other postemployment benefits obligation that was recognized with the implementation of GASB 45 beginning in 2010. Additional information regarding GASB 75 can be found in the notes on page 69.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,837,902, which is an increase of 6.1% or \$625,422 over the previous fiscal year. Of this amount, \$10,302,509 is available for spending at the government's discretion (unassigned).
- The general fund, which is the City's only major governmental fund generated \$8,011,137 in revenue and had \$7,453,106 in expenditures creating a net change in fund balance of \$558,031.
- At the end of the current fiscal year, the City's Police Officers' Supplemental Pension Plan (the "POSPP") fiduciary fund had a net position of \$277,802 held in trust for supplemental police officer pension benefits. This net position is an increase of 9.8% or \$24,852 over the previous year.
- As of September 30, 2018, the City had no general long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of 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.

Overview of the Financial Statements (continued)

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

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; the difference between the sum of the assets and deferred outflows and the sum of the liabilities and deferred inflows is 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 City is improving or deteriorating. However, other factors such as the condition of the City's capital assets (infrastructure, buildings, etc.) should also be considered to assess Indian Harbour Beach's financial health.

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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The governmental activities of the City include general government, public safety, transportation, and recreation activities.

The government-wide financial statements can be found on pages 22-23 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 City 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 and 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 City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered the only major fund. Data from the other three governmental funds is combined into a single, aggregated presentation.

Overview of the Financial Statements (continued)

The City adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the general fund on page 73 of this report to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

Fiduciary Fund. 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 Indian Harbour Beach's own programs.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 31-71 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This information includes budgetary comparison for the general fund, schedule of changes in total OPEB liability and related ratios, and the pension schedules. Also included in this report are supplemental combining fund financial statements for the non-major governmental funds.

The required supplementary information and notes to the required supplementary information can be found on pages 73-85 and the supplemental combining fund financial statements begin on page 88.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Indian Harbour Beach, net position totaled \$24,048,658 at the close of the most recent fiscal year. The largest portion of net position (67.2%) reflects its net investment in capital assets (e.g. land, infrastructure, buildings, and equipment). The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Approximately, 2% (\$489,346) of the City's net position represents resources that are subject to external restrictions on how they may be used. Externally imposed restrictions may include things such as: law enforcement special revenue funds, stormwater assessment, and grants. The remaining unrestricted net position of \$7,409,654 may be used to meet the City's ongoing operations.

Government-wide Financial Analysis (continued)

The following table provides Government-wide comparative data for fiscal years ending September 30, 2018 and 2017:

| | Governmental Activities | | |
|---|-------------------------|----------------------|-------------------|
| | 2018 | 2017 | Variance |
| Current and other assets | \$ 11,109,919 | \$ 10,589,387 | \$ 520,532 |
| Capital assets | 16,149,658 | 16,078,981 | 70,677 |
| Total assets | <u>27,259,577</u> | <u>26,668,368</u> | <u>591,209</u> |
| Deferred outflows of resources | 2,460,340 | 2,321,831 | 138,509 |
| Current liabilities | 272,017 | 373,454 | (101,437) |
| Long-term liabilities outstanding | | | |
| Compensated absences | 637,149 | 671,064 | (33,915) |
| Other post employment benefit obligations | 428,827 | 406,000 | 22,827 |
| Net pension liabilities | <u>3,625,537</u> | <u>3,487,585</u> | <u>137,952</u> |
| Total liabilities | <u>4,963,530</u> | <u>4,938,103</u> | <u>25,427</u> |
| Deferred inflows of resources | 707,729 | 420,998 | 286,731 |
| Net position: | | | |
| Net investment in capital assets | 16,149,658 | 16,078,981 | 70,677 |
| Restricted | | | |
| Special revenue funds | 258,330 | 190,939 | 67,391 |
| Other purposes | 231,016 | 339,065 | (108,049) |
| Unrestricted | <u>7,409,654</u> | <u>7,022,113</u> | <u>387,541</u> |
| Total net position | <u>\$ 24,048,658</u> | <u>\$ 23,631,098</u> | <u>\$ 417,560</u> |

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

During the current fiscal year, the City's net position increased over the previous fiscal year's restated net position by \$405,895 due to governmental activities including an increase in capital assets of \$70,677. Indian Harbour Beach also saw an increase in noncurrent employee benefit liabilities of \$126,864 which included a 4% or \$137,952 increase in net pension liabilities and a 5.6% increase in other postemployment benefit obligations.

Government-wide Financial Analysis (continued)

The following table provides change in net position governmental activity comparative data for fiscal years ending September 30, 2018 and 2017:

CITY OF INDIAN HARBOUR BEACH'S CHANGE IN NET POSITION

All Governmental Activities

| | <u>2018</u> | <u>2017</u> | <u>Variance</u> |
|---|----------------------|----------------------|-------------------|
| <u>Revenues:</u> | | | |
| Program revenues: | | | |
| Charges for services | \$ 432,091 | \$ 387,431 | \$ 44,660 |
| Operating grants and contributions | 73,420 | 54,700 | 18,720 |
| Capital grants and contributions | 217,953 | 217,967 | (14) |
| General revenues: | | | |
| Property taxes | 4,593,545 | 4,168,292 | 425,253 |
| Other taxes | 1,292,534 | 1,272,268 | 20,266 |
| State shared revenues | 792,311 | 750,138 | 42,173 |
| Franchise fees | 597,606 | 587,936 | 9,670 |
| Local shared revenues | 7,677 | 7,601 | 76 |
| Interest income | 153,558 | 70,979 | 82,579 |
| Other revenues | 52,301 | 4,932 | 47,369 |
| Total revenues | <u>8,212,996</u> | <u>7,522,244</u> | <u>690,752</u> |
| <u>Expenses:</u> | | | |
| General government | 1,523,883 | 1,450,212 | 73,671 |
| Public safety | 3,580,171 | 3,525,683 | 54,488 |
| Transportation | 1,725,090 | 1,697,211 | 27,879 |
| Recreation | 977,957 | 976,029 | 1,928 |
| Total expenses | <u>7,807,101</u> | <u>7,649,135</u> | <u>157,966</u> |
| Change in net position | <u>405,895</u> | <u>(126,891)</u> | <u>532,786</u> |
| Net position, beginning | <u>23,631,098</u> | <u>23,757,989</u> | <u>(126,891)</u> |
| Cumulative effect of change in accounting principle | 11,665 | - | 11,665 |
| Net position, beginning (restated) | <u>23,642,763</u> | <u>23,757,989</u> | <u>(115,226)</u> |
| Net position, ending | <u>\$ 24,048,658</u> | <u>\$ 23,631,098</u> | <u>\$ 417,560</u> |

As noted earlier, governmental activities increased Indian Harbour Beach's net position by \$405,895 or 1.72%.

Net Pension Liability

With the implementation of GASB 68, the unfunded pension obligations (Net Pension Liability) are a liability on the statement of net position within the City’s basic financial statements. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions.

The City’s net pension liability is a cumulative total of the City’s four pension plans. These four plans include two non-police officer plans: Florida Retirement System (FRS) and Health Insurance Subsidy (HIS), and two police officer plans: Municipal Police Officers’ Retirement Fund and Police Officers’ Supplemental Pension Plan. GASB 68 recognizes three different types of defined benefit employer plans and the City has at least one of each type:

Single-Employer Plan - A plan that provides pension benefits to the employees of one employer. The City’s Municipal Police Officers’ Retirement Fund qualifies as this type of plan and is overseen by the City’s Police Pension Board of Trustees.

Agent Multiple-Employer Plan - A plan in which the assets of the participating government employers are pooled for investment purposes, but separate accounts are maintained for each individual employer. As a result, each participating employer’s share of the pooled assets is legally available to pay the defined benefit pensions of only its retirees. The City’s Police Officers’ Supplemental Pension Plan falls under this type of defined benefit employer plan.

Cost-Sharing Multiple-Employer Plan - A plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The plan assets are used to pay the pensions of the retirees of any participating employer. Both the Florida Retirement System and the Health Insurance Subsidy are considered cost-sharing, multiple-employer plans.

According to GASB 68 guidelines, September 30 of the previous fiscal year, was chosen for the City’s measurement date. The City’s net pension liability comparative balances for fiscal years ending September 30, 2018 and 2017 are shown below.

**CITY OF INDIAN HARBOUR BEACH’S NET PENSION LIABILITIES
September 30,**

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Municipal Police Officers' Retirement Fund (MPORF) | \$ 1,389,185 | \$ 1,504,187 |
| Police Officers' Supplemental Pension Plan (POSPP) | 29,096 | 53,939 |
| Florida Retirement System (FRS) | 1,546,156 | 1,235,263 |
| Health Insurance Subsidy (HIS) | 661,100 | 694,196 |
| Total net pension liability | <u>\$ 3,625,537</u> | <u>\$ 3,487,585</u> |

Government Funds Financial Analysis

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Fund balance is composed of:

- Non-spendable Fund Balance - Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted Fund Balance - Amounts that have externally enforceable limitations on use of resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed Fund Balance - Amounts that can be used only for the specific purposes determined by action of the City Council, the City's highest level of decision making authority.
- Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes that are neither considered restricted nor committed. The authority to assign fund balance lies with the City Manager.
- Unassigned Fund Balance - This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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.

Government Funds Financial Analysis (continued)

The following table provides information regarding the City's combined fund balances. Specific information for the general fund and the special revenue funds is found on page 24.

CITY OF INDIAN HARBOUR BEACH'S BALANCE SHEET

September 30,

| | <u>2018</u> | <u>2017</u> | <u>Variance</u> |
|--|----------------------|----------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents - unrestricted | \$ 10,572,405 | \$ 10,165,293 | \$ 407,112 |
| Cash and cash equivalents - restricted | 231,016 | 115,000 | 116,016 |
| Receivables | 300,663 | 308,862 | (8,199) |
| Prepays | 5,835 | 232 | 5,603 |
| Total assets | <u>\$ 11,109,919</u> | <u>\$ 10,589,387</u> | <u>\$ 520,532</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | \$ 63,043 | \$ 49,451 | \$ 13,592 |
| Accrued wages payable | 162,310 | 165,493 | (3,183) |
| Unearned revenue | 37,255 | 39,710 | (2,455) |
| Other liabilities | 9,409 | 122,253 | (112,844) |
| Total liabilities | <u>272,017</u> | <u>376,907</u> | <u>(104,890)</u> |
| Fund balance | | | |
| Nonspendable for prepaids | 5,835 | - | 5,835 |
| Restricted | | | |
| Special revenue funds | 258,330 | 190,939 | 67,391 |
| Other | 231,016 | 339,065 | (108,049) |
| Committed | 40,212 | 300,313 | (260,101) |
| Assigned | - | 1,230 | (1,230) |
| Unassigned | 10,302,509 | 9,380,933 | 921,576 |
| Total fund balances | <u>10,837,902</u> | <u>10,212,480</u> | <u>625,422</u> |
| Total liabilities and fund balances | <u>\$ 11,109,919</u> | <u>\$ 10,589,387</u> | <u>\$ 520,532</u> |

As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$10,837,902, an increase of \$625,422 in comparison with the prior year. The entire combined fund balance amount constitutes \$5,835 of nonspendable funds, restricted funds of \$489,346, committed funds of \$40,212, and unassigned funds of \$10,302,509 which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance in the general fund was \$10,302,509, while the total fund balance of the general fund was \$10,579,572.

Government Funds Financial Analysis (continued)

The following table provides comparative information regarding the general fund's revenues, expenditures, and changes in fund balances. Additional information can be found on page 26.

CITY OF INDIAN HARBOUR BEACH'S GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year ended September 30,

| | 2018 | 2017 | Variance |
|--|----------------------|----------------------|-------------------|
| REVENUES | | | |
| Taxes | \$ 5,886,079 | \$ 5,440,560 | \$ 445,519 |
| Permits, fees and special assessments | 769,125 | 723,410 | 45,715 |
| Intergovernmental | 857,594 | 803,395 | 54,199 |
| Charges for services | 261,598 | 253,486 | 8,112 |
| Judgments, fines and forfeits | 12,797 | 9,915 | 2,882 |
| Interest and other earnings | 153,197 | 70,621 | 82,576 |
| Miscellaneous | 70,747 | 52,912 | 17,835 |
| Total revenues | <u>8,011,137</u> | <u>7,354,299</u> | <u>656,838</u> |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,271,830 | 1,210,125 | 61,705 |
| Public safety | 3,287,640 | 3,306,924 | (19,284) |
| Transportation | 1,223,651 | 1,208,937 | 14,714 |
| Recreation | 752,575 | 760,447 | (7,872) |
| Capital outlay | 917,410 | 810,265 | 107,145 |
| Total expenditures | <u>7,453,106</u> | <u>7,296,698</u> | <u>156,408</u> |
| Excess (deficiency) of revenues over (under) expenditures | 558,031 | 57,601 | 500,430 |
| Other financing sources | | | |
| Proceeds from the sale of capital assets | - | 6,645 | (6,645) |
| Net change in fund balances | <u>558,031</u> | <u>64,246</u> | <u>493,785</u> |
| Fund balances, beginning | 10,021,541 | 9,957,295 | 64,246 |
| Fund balances, ending | <u>\$ 10,579,572</u> | <u>\$ 10,021,541</u> | <u>\$ 558,031</u> |

Total revenues in the general fund were \$8,011,137 which represents an increase of \$656,838 from the prior year or 9%. This increase was mainly due to higher ad valorem property tax revenue (10.2%), intergovernmental revenues (6.7%), building permits (28.9%) and interest earnings (116.9%). The general fund expenditures for the current fiscal year were \$7,453,106 which was an increase of 2.1%. The positive net change in the general fund balance was \$558,031.

General Fund Budgetary Highlights

A budget to actual schedule is provided for the general fund. A budget column for both the original budget adopted for fiscal year 2017/2018 as well as the final amended budget is presented. The Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund can be found on page 73.

During the year there was a \$49,689 increase in appropriations between the original and final amended budget. Due to various revenue events, trends, and other anticipated increases, the City reallocated revenues and the need for prior year income (reserves) during the year. The following outline some of these changes:

- **Intergovernmental revenues** - State shared sales tax and Half-cent sales tax revenues were on an upward trend due to a strong economy (\$52,634); State mandated School Resource Officer Funding (\$16,482); and Casualty Insurance Premium Tax (\$12,349). In addition, the original fiscal year budget did not include any revenue resources due to natural disasters; however, this changed due to Hurricane Irma and related FEMA grants (\$56,102).
- **Permits, fees and special assessments** - The three year decline in gas and electric franchise fees appeared to be coming to an end as the City saw slight increases throughout the early part of the fiscal year (\$55,200). Compared to the previous ten years, the City saw a significant increase in building activity and permitting during the fiscal year and anticipated this trend to continue through the end of the fiscal year (\$65,645).
- **Interest and other earnings** - as interest rates continued rising throughout the year, the City was able to take advantage of some term series investment opportunities (\$79,581).
- **Communications services tax** - the five-year downward fall of communications service tax revenue appeared to have reached a plateau during the fiscal year (\$58,036).
- **Franchise fees** - the three year decline in gas and electric franchise fees were coming in with slight increases throughout the early part of the fiscal year and it was anticipated that this pattern would continue through year end (\$55,200).

Although the City anticipated the above-mentioned changes and increases in revenues, expenditures continued to be managed to the bottom line. Significant reallocations of expenditures included:

- **Public safety** - a decrease in appropriations due to police department personnel changes and anticipated decrease in equipment, vehicle, and building maintenance needs (\$221,474); the fire department also anticipated a decrease in equipment, vehicle, and building maintenance needs (\$16,325).
- **Transportation** - a decrease in appropriations due to changes in engineering projects including the Indian River Lagoon Muck Removal project (\$149,790).

At the end of the fiscal year, the City had an excess of revenues over expenditures of \$558,031. A comparison of the final operating revenue budget to actual revenues produces a negative variance of \$50,822. The majority of this decrease was due to the expectation of FEMA grants being approved and obligated prior to the fiscal year end that did not come to fruition.

General Fund Budgetary Highlights (continued)

Actual expenditures were lower than final budgeted expenditures by \$608,853 or 7.6%. The majority of this decrease (90.9%) was due to contingency funds that were appropriated due to the unforeseen increases in budgeted revenues. The majority of the additional decrease in expenditure variance was due to the following:

- **Public Safety** - Police Department personnel, uniforms, and non-capital equipment due to additional changes and needs not being completed prior to fiscal year end (\$11,129), Fire Department vehicle maintenance and fuel expenses lower than expected (\$2,238), and Building Department scheduling changes and building plans scanning project postponement (\$2,675).
- **Transportation** - Changes to engineering projects including the Indian River Lagoon project (\$5,566) and vehicle and equipment maintenance lower than anticipated (\$1,634).
- **Recreation** - Personnel expenditures lower due to lifeguard scheduling changes and associated payroll costs (\$1,880).

Capital Assets and Debt Administration

Capital assets. As of September 30, 2018, the City's capital assets total for its governmental activities was \$16,149,658 (net of depreciation). Investment in capital assets includes land, buildings and improvements, infrastructure, improvements other than buildings, equipment, motor vehicles, and software. The total increase in the City's investment in capital assets for the current fiscal year was less than 1%. A comparative summary of net capital assets by category follows:

| | Capital Assets at Year End (net of accumulated depreciation) | | |
|-----------------------------------|---|----------------------|------------------|
| | 2018 | 2017 | Difference |
| Land | \$ 3,050,325 | \$ 3,050,325 | \$ - |
| Buildings and improvements | 2,528,198 | 2,646,167 | (117,969) |
| Improvements, other than building | 1,866,524 | 1,812,167 | 54,357 |
| Equipment | 1,023,137 | 923,623 | 99,514 |
| Motor vehicles | 674,041 | 658,430 | 15,611 |
| Software | 76,132 | 86,092 | (9,960) |
| Infrastructure | 6,931,301 | 6,902,177 | 29,124 |
| Total capital assets | <u>\$ 16,149,658</u> | <u>\$ 16,078,981</u> | <u>\$ 70,677</u> |

During the fiscal year, the City continued working diligently to protect those quality services that afford our residents the quality of life they have come to expect from the City. Major capital asset events during the 2017/2018 fiscal year included:

- Improvement projects related to Hurricane Irma damage: Roads and drainage projects (\$107,086); Algonquin Sports Complex dugout, fences, and backstop (\$33,025);
- Replacement of aging equipment:
 - Police Department - Dispatch radio console, AEDs, laptops, radios, video camera systems, radar, and vehicle emergency lighting & siren system (\$98,962);

Capital Assets and Debt Administration (continued)

- Recreation Department - fountains for Gleason Park lake, ATV, picnic tables, main hall floor scrubber, computer tablet (\$64,913);
- Public Works - solar school zone warning lights, mowers, gas dispenser containment unit, ice machine, air compressor, pressure washer, trailers (\$58,452);
- Fire Department - radios and vehicle emergency lighting & siren system (\$38,209);
- General Government - generator refurbishment, air conditioner, server security cage, printers (\$39,086).
- Vehicles:
 - Police Department - Officer SUV (\$36,063);
 - Fire Department - Chief SUV (\$36,969);
 - Building Department - Building Official F-150 truck (\$24,875);
 - Public Works - Assistant Director F-150 truck (\$27,909).
- Improvements Other than Buildings
 - Bicentennial Park Pavilion (\$72,006);
 - Oars & Paddles Park projects including: playground awning, fences, and patio (\$54,392);
 - City Hall parking lot poles and lights (\$12,500);
 - Installation of memorial brick paver walkway located in Gleason Park (\$7,000).
- Roads/Sidewalks (\$193,008) and Drainage (\$148,943) - projects designed to protect the quality of the City's infrastructure while meeting the mandates of new State and Federal laws and regulations.

Major Initiatives

Over the course of fiscal year 2017/2018 the City continued a philosophy of investing in the community, while recovering from two hurricanes (Matthew and Irma) that struck our community in the same fiscal year. The Mayor, City Council, and Staff were committed to protecting assets of the community by investing \$1,066,353 in various capital assets.

● **Infrastructure**

- In FY 2017/2018, the City continued our strategy of investing in the community's infrastructure. Protection of one of our most valuable assets, the Indian River Lagoon, is a top priority. Our City continues to take great pride in protecting this natural resource and constructed stormwater improvements to remove the harmful nutrients and debris prior to these waters entering the lagoon. These improvements allow the City to continue our compliance with the NPDES (National Pollutant Discharge Elimination System) nutrient removal requirements.

Major Initiatives (continued)

- **Infrastructure (continued)**

The continued effort to remove nutrient laden muck, which is harmful to the health of the Indian River Lagoon, from twelve canals in our community, includes a Muck Assessment project. This assessment is the prelude to the permitting and construction of a major Muck Removal Project, valued at nearly \$10M, which is partially funded via the Save Our Indian River Lagoon Half-Cent Sales Tax. In FY 2017/2018, the City received a \$5.7M commitment from Brevard County in Half-Cent Sales Tax revenue, the largest non-municipal funding in the history of the City, for this project. In subsequent years, the City will pursue enhancing the sales tax funding, seek a State Legislative Appropriation, and other resources to make this project become a reality.

- In addition, in FY 2017/2018 the City received a commitment from Brevard County for \$26,637 in Half-Cent Sales Tax for a future Baffle Box on the eastern end of the Big Muddy Canal to collect trash and debris and provide for the removal of harmful nutrients from entering the canal and eventually the Indian River Lagoon. This funding will be enhanced with a request to modify the drainage basin being treated in subsequent fiscal years that should more than double the funding for the design and construction, an estimated total cost of \$284,000.
- Further evidence of the City's commitment to protecting the lagoon is our on-going Big Muddy Canal seawall replacement program. This initiative will protect the adjoining properties and help reduce erosion and sediment from entering the canal and the lagoon.
- The City is located on a barrier island; therefore, a part of our major public safety program is the protection of properties through the drainage system that discharges to the Indian River Lagoon. Although not a Capital Project, in FY 2017/2018 the City embarked on a major project (\$70,915) to clean and restore the drainage canals in the community.
- Another significant asset the City invests in each year is our roadways. While other communities in lean budget years have scaled back or curtailed road resurfacing, this community has and continues to invest in a robust resurfacing program.

- **Buildings and Fixed Equipment**

In FY 2017-2018, the City did not implement any building improvements; however, we focused on maintaining our vital facilities through air conditioner replacements and enhanced structural security for the City's network server.

Major Initiatives (continued)

- **Property Improvements**

- The City's park system continues to be the pride of the community. Through a team effort by our Recreation Department and Public Works Department personnel, the City's parks are maintained in an exemplary manner, with Gleason Park being the shining star for the community.

In 2016, the City assumed the ownership and maintenance of a previous Brevard County park, Oars and Paddles Park. This park is heavily utilized by runners, rowers, paddleboarders, bicyclists, and citizens who want to utilize the playground and picnic pavilion adjoining the Whiting Waterway and to have paddle access to the Indian River Lagoon. Our team of professionals have taken a previously neglected park, enhanced the maintenance, and provided much needed improvements, such as shade structures for the playground.

- This fiscal year the City implemented lighting enhancements at City Hall with new LED parking lot lights for added security, reduced energy consumption, and the replacement of outdated and difficult to maintain light structures.
- FY 2017-2018 saw the implementation of a new modern looking color scheme, a palate more conducive to a beach community, to municipal structures. This initiative will continue in the following fiscal year.

- **Vehicles**

- Within the approved FY 2017/2018 Annual Operating Budget, the City appropriated \$53,000 for the replacement of one vehicle within the Indian Harbour Beach Police Department. The vehicle replaced was a 2009 Ford Crown Victoria with more than 107,000 road miles.

It is important to note that law enforcement vehicles, due to numerous electronics within the vehicle, experience significant engine miles versus road miles. In fact, according to Ford Fleet they have determined one hour of idling is equal to the engine wear of driving 33 miles. If it is assumed that 50% of the time is spent idling in 200 hours, the odometer may show 2,000 miles, but we have to add the idling-equivalent hours, which in this case is 3,300 miles (i.e., 100 hours times 33 miles). The actual wear on the engine after 2,000 miles is really the wear after 5,300 miles (i.e., 2,000 odometer miles plus 3,300 miles idling). Based upon this information you could extrapolate that this 2009 Ford Crown Victoria has nearly 190,000 miles on the engine of this vehicle.

- Also, we appropriated \$130,000 for the replacement of four other vehicles within the City of Indian Harbour Beach. Through strategic moves of vehicles within the City, the following was accomplished:
 - We purchased a 2018 Ford Interceptor to be assigned to the Fire Chief as the District 56 vehicle. The current District 56 Vehicle (2005 Ford 150) will be assigned to the Fire Marshal to replace a 2003 Ford Expedition. The 2003 Ford Expedition will be repurposed in the City.

Major Initiatives (continued)

• Vehicles (continued)

- A 2018 Ford F-150 Pickup Truck replaced a 2006 Ford F-250 Pickup Truck in the Public Works Department. The 2006 Ford F-250 will be sold as surplus in the next fiscal year.
- A 2018 Ford F-150 truck replaced a 2003 Ford Ranger Pickup Truck assigned to the Building Official. The 2003 Ford Ranger was assigned to the Recreation Department.
- A 2005 Ford F150 Crew Cab Pickup Truck within the Public Works Department was replaced by a 2019 F150 Ford Supercab truck.

• Equipment and Software

- During this fiscal year, the City implemented enhancements at City Hall with a refurbished emergency backup generator. This is essential to the continuity of operations during a storm event or power outage. Additionally, we continued to improve public safety with a modern dispatch radio console, radios, video cameras, vehicle emergency lighting and sirens, radar equipment, AEDs, and solar school zone warning lights.
- In order to ensure the exemplary parks that our citizens have grown to expect, we have provided new mowers, trailers, an ATV, picnic tables, and fountains to these areas throughout the City. In addition, various equipment upgrades for the Community Pool were purchased. To assist in maintenance of the Recreation Center, the City acquired a floor scrubber.
- Within our Public Works Department, we have upgraded our fuel dispensing system, purchased an air compressor and pressure washer, and provided the employees with a new ice machine.
- For general enhancements for productivity we added new printers, computer tablets, and cash receipts printers.

Long-term debt. At the end of the current fiscal year, the City, continuing its long-time practice, did not have any general long-term outstanding debt.

A Look Ahead

The City's tax rolls have recovered from the economic slowdown and show modest increases in total taxable values (7.1%). The beachside communities are certainly desirable places to live which have improved taxable values.

The Indian River Lagoon is a waterbody that is beneficial to the environment and the economic health of the community. Fiscal Year 2018/2019 will see continued water quality projects to protect this valuable resource and help to rejuvenate this impaired waterway.

The voters of Brevard County enthusiastically supported a Half-Cent Sales Tax for water quality projects to improve water quality and save our imperiled Indian River Lagoon. The City of Indian Harbour Beach will annually submit for funding for projects through this sales tax to achieve the goal of restoring the Indian River Lagoon and preserve property values within the community.

A Look Ahead (continued)

The Muck Removal Project, valued at nearly \$10M, and partially funded via the Save Our Indian River Lagoon (SOIRL) Half-Cent Sales Tax will continue in the coming fiscal year. For the SOIRL 2019 plan update, we are requesting updated cost-share funding based on the 2019 Update cost-share rates. The City has modified our submittal to increase the amount of nitrogen and phosphorous removed. The proposed 2019 Project Plan Update provided \$3,579,660 for muck removal and \$5,483,600 for muck interstitial water treatment for a total appropriation of \$9,061,260. If approved, this enhancement will increase the previously largest non-municipal funding in the history of the City, for this project. The City hopes to supplement this funding to reduce the financial burden on the community.

Additionally, the 2019 SOIRL Project Plan included the Big Muddy Baffle Box Project. The 2018 Project Plan submittal for the Baffle Box project provided a treatment area of a 32-acre drainage basin. The amended request will increase the treatment area to 63.8 acres. This enhancement increases the SOIRL sale tax allocation for the project from \$26,637 to \$68,332.

In FY 2018/2019, the City will see the commencement of a contract for Architectural/Engineering Services for the planning & site plan development, approval, and design of a new Police Headquarters on South Patrick Drive. This exciting project will bring forward the design of a new modern and safe Police Headquarters with anticipated construction in FY 2019/2020.

The City will continue its investment in infrastructure philosophy with road resurfacing and drainage projects. Through our partnership with Brevard County, the City will utilize Transportation Impact Fees to provide sidewalk enhancements within the community.

Our community is very proud of our parks. The City plans to renovate the pool/bath house for added safety of patrons. Other planned improvements, include but are not limited to, keyless entry for the Recreation Center, playground improvements, and the commencement of the removal of invasive Brazilian Pepper Trees from a portion of Gleason Park.

In the 2018/2019 Budget, we will utilize nearly \$200,000 of Tourist Development Tax revenue committed to the City for an additional boat launch, safety railings, and additional parking in Oars and Paddles Park . Also, the City plans a new walkway within the park.

As we continue our pursuit to leverage new technology to our strategic advantage we will provide an in-house phone system, enhanced surveillance and security equipment, replacement computers, and meet new security requirements for our public safety network.

During 2018/2019, the City will continue our vehicle replacement program in both the Police Department and Public Works Department. Other significant public safety enhancements planned include a new Police boat and associated storage dock, partially funded via a grant from the Florida Inland Navigation District. We will continue to make public safety improvements for the community for items such as radios, AEDs, and rescue tools.

This is an exciting time for the City of Indian Harbour Beach as we strive toward excellence in local government. The City is confident that given the continued support of the Mayor and City Council we will continue in this pursuit and provide high levels of service and strong financial stability.

Requests for Information

This financial report is designed to provide a general overview of the City of Indian Harbour Beach's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller's Office, City of Indian Harbour Beach, 2055 South Patrick Drive, Indian Harbour Beach, FL 32937.

BASIC FINANCIAL STATEMENTS

City of Indian Harbour Beach, Florida

STATEMENT OF NET POSITION

September 30, 2018

| | Governmental Activities |
|---|------------------------------------|
| | <u> </u> |
| ASSETS | |
| Cash and cash equivalents - unrestricted | \$ 10,572,405 |
| Cash and cash equivalents - restricted | 231,016 |
| Receivables | 300,663 |
| Prepays | <u>5,835</u> |
| Total current assets | <u>11,109,919</u> |
| Capital assets, not being depreciated | |
| Land | 3,050,325 |
| Capital assets, net of accumulated depreciation | |
| Buildings and improvements | 2,528,198 |
| Improvements, other than buildings | 1,866,524 |
| Equipment | 1,023,137 |
| Motor vehicles | 674,041 |
| Software | 76,132 |
| Infrastructure | <u>6,931,301</u> |
| Total capital assets | <u>16,149,658</u> |
| Total assets | <u>27,259,577</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pensions | <u>2,460,340</u> |
| LIABILITIES | |
| Accounts payable | 63,043 |
| Accrued wages payable | 162,310 |
| Unearned revenue | 37,255 |
| Other liabilities | <u>9,409</u> |
| Total current liabilities | <u>272,017</u> |
| Noncurrent liabilities | |
| Due within one year | |
| Compensated absences payable | 318,574 |
| Due in more than one year | |
| Compensated absences payable | 318,575 |
| Other post employment benefits payable | 428,827 |
| Net pension liabilities | <u>3,625,537</u> |
| Total noncurrent liabilities | <u>4,691,513</u> |
| Total liabilities | <u>4,963,530</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | <u>707,729</u> |
| NET POSITION | |
| Net investment in capital assets | 16,149,658 |
| Restricted | |
| Special revenue funds | 258,330 |
| Grants | 231,016 |
| Unrestricted | <u>7,409,654</u> |
| Total net position | <u>\$ 24,048,658</u> |

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

City of Indian Harbour Beach, Florida

STATEMENT OF ACTIVITIES

Year ended September 30, 2018

| Function/Program | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------|---------------------|----------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| General government | \$ 1,523,883 | \$ 18,649 | \$ 47,308 | \$ - | \$ (1,457,926) |
| Public safety | 3,580,171 | 193,252 | 26,112 | - | (3,360,807) |
| Transportation | 1,725,090 | 31,168 | - | 217,953 | (1,475,969) |
| Recreation | 977,957 | 189,022 | - | - | (788,935) |
| Total | <u>\$ 7,807,101</u> | <u>\$ 432,091</u> | <u>\$ 73,420</u> | <u>\$ 217,953</u> | <u>(7,083,637)</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 4,593,545 |
| | | | | | 324,907 |
| | | | | | 565,331 |
| | | | | | 402,296 |
| | | | | | 792,311 |
| | | | | | 597,606 |
| | | | | | 7,677 |
| | | | | | 153,558 |
| | | | | | 65,747 |
| | | | | | (13,446) |
| | | | | | <u>7,489,532</u> |
| | | | | | 405,895 |
| | | | | | 23,631,098 |
| | | | | | 11,665 |
| | | | | | <u>23,642,763</u> |
| | | | | | <u>\$ 24,048,658</u> |

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

City of Indian Harbour Beach, Florida

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2018

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|
| ASSETS | | | |
| Cash and cash equivalents - unrestricted | \$ 10,314,102 | \$ 258,303 | \$ 10,572,405 |
| Cash and cash equivalents - restricted | 231,016 | - | 231,016 |
| Receivables | 300,636 | 27 | 300,663 |
| Prepays | <u>5,835</u> | <u>-</u> | <u>5,835</u> |
| Total assets | <u>\$ 10,851,589</u> | <u>\$ 258,330</u> | <u>\$ 11,109,919</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | \$ 63,043 | \$ - | \$ 63,043 |
| Accrued wages payable | 162,310 | - | 162,310 |
| Unearned revenue | 37,255 | - | 37,255 |
| Other liabilities | <u>9,409</u> | <u>-</u> | <u>9,409</u> |
| Total liabilities | <u>272,017</u> | <u>-</u> | <u>272,017</u> |
| Fund balance | | | |
| Nonspendable for prepaids | 5,835 | - | 5,835 |
| Restricted | | | |
| Special revenue funds | - | 258,330 | 258,330 |
| Grants | 231,016 | - | 231,016 |
| Committed | 40,212 | - | 40,212 |
| Unassigned | <u>10,302,509</u> | <u>-</u> | <u>10,302,509</u> |
| Total fund balances | <u>10,579,572</u> | <u>258,330</u> | <u>10,837,902</u> |
| Total liabilities and fund balances | <u>\$ 10,851,589</u> | <u>\$ 258,330</u> | <u>\$ 11,109,919</u> |

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

City of Indian Harbour Beach, Florida

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

September 30, 2018

| | | |
|--|--------------|---------------|
| Fund balances - total governmental funds | | \$ 10,837,902 |
| The net position 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 governmental funds. Those assets consist of: | | |
| Land | \$ 3,050,325 | |
| Buildings and improvements, net | 2,528,198 | |
| Improvements, other than buildings, net | 1,866,524 | |
| Equipment, net | 1,023,137 | |
| Motor vehicles, net | 674,041 | |
| Software, net | 76,132 | |
| Infrastructure, net | 6,931,301 | 16,149,658 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Compensated absences | | (637,149) |
| Other post employment benefits payable | | (428,827) |
| Deferred amounts are reported in the statement of net position as deferred outflows or deferred inflows of resources but are not reported in the funds. Those deferred amounts consist of: | | |
| Deferred assumptions, contributions, change in proportion (NPL), and experience | 2,460,340 | |
| Deferred change in proportion (NPL), experience, and investments | (707,729) | |
| Total deferred outflows (inflows) | | 1,752,611 |
| Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Net pension liabilities | | (3,625,537) |
| Total net position of governmental activities | | \$ 24,048,658 |

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

City of Indian Harbour Beach, Florida

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended September 30, 2018

| | General | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|----------------------|---|---|
| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| REVENUES | | | |
| Taxes | \$ 5,886,079 | \$ - | \$ 5,886,079 |
| Permits, fees and special assessments | 769,125 | 217,953 | 987,078 |
| Intergovernmental | 857,594 | - | 857,594 |
| Charges for services | 261,598 | - | 261,598 |
| Judgments, fines and forfeits | 12,797 | 444 | 13,241 |
| Interest and other earnings | 153,197 | 361 | 153,558 |
| Miscellaneous | 70,747 | - | 70,747 |
| Total revenues | <u>8,011,137</u> | <u>218,758</u> | <u>8,229,895</u> |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,271,830 | - | 1,271,830 |
| Public safety | 3,287,640 | 2,424 | 3,290,064 |
| Transportation | 1,223,651 | - | 1,223,651 |
| Recreation | 752,575 | - | 752,575 |
| Capital outlay | 917,410 | 148,943 | 1,066,353 |
| Total expenditures | <u>7,453,106</u> | <u>151,367</u> | <u>7,604,473</u> |
| Net change in fund balances | 558,031 | 67,391 | 625,422 |
| Fund balances at October 1, 2017 | <u>10,021,541</u> | <u>190,939</u> | <u>10,212,480</u> |
| Fund balances at September 30, 2018 | <u>\$ 10,579,572</u> | <u>\$ 258,330</u> | <u>\$ 10,837,902</u> |

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

City of Indian Harbour Beach, Florida

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended September 30, 2018

| | | |
|--|------------------|-------------------|
| Net change in fund balances - total governmental funds | | \$ 625,422 |
| The change in net position reported for governmental activities in the statement of activities is different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense: | | |
| Capital outlay | \$ 1,066,353 | |
| Less depreciation expense | <u>(982,230)</u> | 84,123 |
| In the statement of activities, the loss on the sale of capital assets is reported. However, in the governmental funds, only the proceeds on the sale are reported. | | |
| Loss on disposal of capital assets | | (13,446) |
| Revenues in the statement of activities that do not provide current financial resources are unearned in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of various types of revenue differ between the two statements. This amount represents the net change in unearned revenue: | | |
| Revenue earned that does not provide current financial resources | | (3,453) |
| Some expenses reported in the statement of activities did not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | | |
| Change in compensated absences | | 33,915 |
| Change in other post employment benefits payable | | (34,492) |
| Change in pension expense | | <u>(286,174)</u> |
| Change in net position of governmental activities | | <u>\$ 405,895</u> |

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

City of Indian Harbour Beach, Florida

STATEMENT OF FIDUCIARY NET POSITION

September 30, 2018

| | <u>Police Supplemental Pension Fund</u> |
|---|---|
| ASSETS | |
| Cash and cash equivalents | \$ 272,803 |
| Contribution receivables | <u>4,999</u> |
| Total assets | <u><u>\$ 277,802</u></u> |
| NET POSITION | |
| Restricted net position held in trust for supplemental pension benefits | <u><u>\$ 277,802</u></u> |

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

City of Indian Harbour Beach, Florida

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

September 30, 2018

| | <u>Police Supplemental Pension Fund</u> |
|--|---|
| ADDITIONS TO NET POSITION ATTRIBUTED TO: | |
| CONTRIBUTIONS: | |
| Employer contributions | \$ 31,686 |
| INVESTMENT INCOME: | |
| Net appreciation in fair value of investments | <u>18,870</u> |
| Total additions | <u>50,556</u> |
| DEDUCTIONS TO NET POSITION ATTRIBUTED TO: | |
| Plan distributions | 15,800 |
| Administrative expenses | <u>9,904</u> |
| Total deductions | <u>25,704</u> |
| Change in net position | 24,852 |
| Net position - beginning | <u>252,950</u> |
| Net position - ending | <u><u>\$ 277,802</u></u> |

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

NOTES TO FINANCIAL STATEMENTS

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Indian Harbour Beach, Florida (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

1. Reporting entity

The City of Indian Harbour Beach was incorporated in 1955 and recognized by a special act of the Florida legislature in 1963 as a municipality with a five member Council. The Council is elected by the registered voters of the City. The Mayor is selected by the Council from the Council Members. The City provides a wide range of services as directed by the City Charter, including general government, public safety, police, fire, public improvements, recreation, planning and zoning and other related general and administrative services for approximately 8,500 residents.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Codification Section 2100, *Defining the Financial Reporting Entity*. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the purpose and activities of the potential component unit benefit the government and/or its citizens, or whether they are conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the City's reporting entity.

Excluded from the reporting entity:

The City of Indian Harbour Beach Volunteer Fire Department, Inc.

The City of Indian Harbour Beach Volunteer Fire Department, Inc. is a nonprofit organization separate from the City. This potential component unit is excluded from the reporting entity because the City does not exert significant influence or control over the organization, nor does it have a right to the organization's surplus.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the nonfiduciary activities of the primary government as a whole. As part of the consolidation process, all interfund activities are eliminated from these statements.

Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, as presented in the statement of net position, is subdivided into three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation. Net investment in capital assets is the component of net position that consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction and improvements of those assets. Unrestricted net position does not meet the definition of the other two components.

The statement of activities presents a comparison between the direct and indirect expenses of a given function or segment and its program revenues, and displays the extent to which each function or segment contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate fund financial statements report detailed information about the City's governmental funds. The focus of governmental fund financial statements is on major funds. Therefore, major funds are reported as separate columns in the fund financial statements and non-major funds are aggregated and presented as a single column on each statement. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Basis of accounting, measurement focus and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Basis of accounting, measurement focus and financial statement presentation (continued)

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

Property taxes, franchise taxes, licenses and permits, charges for services, fines and forfeitures and other revenues (except for investment earnings) associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Investment earnings are recorded when earned.

The City reports the following major governmental fund:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

4. Budgets

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances, as appropriations lapse at fiscal year-end. Unexpended items which are encumbered at year end are reappropriated in the subsequent year. The City had no encumbrances outstanding that was reported in its fund balances at September 30, 2018.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Cash, cash equivalents, and investments

Cash includes amounts in demand deposits and investment pools as well as short-term investments with a maturity date within three months of the date acquired by the City. Investments are stated at market value and income from investments is recorded in the respective fund when earned.

Dividend income is recognized based on the dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date.

6. Receivables

After reviewing the individual account balances, the City's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

7. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statement of net position. In the governmental funds statement of revenues, expenditures and changes in fund balances, prepaid items are included in expenditures for the current period when consumed.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This 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.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

9. Capital assets

All capital assets, which include land, construction in progress, buildings and improvements, improvements other than buildings, equipment, motor vehicles, software, and infrastructure are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The City defines capital assets as assets with an initial, individual cost of more than \$750 and an estimated useful life of one year or greater.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Capital assets (continued)

Infrastructure assets consist of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems. Infrastructure assets acquired prior to October 1, 2003 are not reported in the basic financial statements.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

| | |
|------------------------------------|---------------|
| Buildings and improvements | 5 - 50 years |
| Improvements, other than buildings | 5 - 50 years |
| Equipment | 3 - 50 years |
| Motor vehicles | 5 - 20 years |
| Software | 5 - 60 years |
| Infrastructure | 10 - 40 years |

10. Unearned revenue

Unearned revenues are reported in the governmental fund financial statements when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise in both government-wide and fund financial statements when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the unearned revenue will be recognized as revenue. As of September 30, 2018, The City reported \$37,255 of unearned revenue.

11. Compensated absences

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are granted to City employees. In the event of termination, an employee is reimbursed for accumulated vacation days up to the equivalent of three years' accumulated vacation. Employees are reimbursed for 50 percent of accumulated sick leave only upon retirement per state requirements. However, if an employee leaves in good standing and has had at least two years of service, they are eligible to receive 30 percent of accumulated sick leave. The maximum number of sick hours that can be accumulated is 800 hours (100 working days). If an employee accumulates sick hours in excess of this maximum, 75 percent of the excess will be credited to additional vacation time. Compensated absences are expensed as earned by the employees in the government-wide financial statements. A liability is reported in the governmental funds only if they have matured.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Interfund transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as an other financing use in the reimbursing fund and as an other financing source in the fund that is reimbursed. All interfund transactions are reported as transfers.

13. Income taxes

The City qualifies as a tax-exempt entity and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

14. Use of estimates

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

15. Fund balance classification

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

Fund Balance - The difference between assets and all current operational commitments and liabilities reported in a governmental fund.

Non-spendable Fund Balance - Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact (i.e. buildings, roads, equipment and other capital assets).

Restricted Fund Balance - Amounts that have externally enforceable limitations on use of resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Fund balance classification (continued)

Committed Fund Balance - Amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may only be removed or changed by the City Council taking the same formal action that imposed the constraint originally.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes that are neither considered restricted nor committed. The authority to assign fund balance lies with the City Manager.

Unassigned Fund Balance - The residual classification for the general fund resources. 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. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Restricted amounts shall be spent first unless there are legal documents/contracts prohibiting this, such as grant agreements. Further, the order of priority shall be Committed Fund Balance, followed by Assigned Fund Balance, and then Unassigned Fund Balance when expenditures are incurred for purposes for which amounts in any of classifications could be used.

If it is determined that there is a surplus (surplus is defined as the amount of cash that exceeds the minimum acceptable level of Cash Reserve), the surplus funds may be designated or appropriated as presented by the City Manager and approved by the City Council, for the following purposes:

- One-time capital needs. Since a surplus may not represent a recurring source of revenue, it should not be used to fund a recurring expense; however, if a one-time capital expenditure requirement has been identified by the appropriate City Executive Leader and the City Manager has agreed, but not already funded through an appropriation, the surplus may be appropriated for this use as approved by the City Council.
- Applied to a renewal and replacement program. Surplus funds may be used to supplement or enhance a capital replacement program such as vehicle, heavy equipment replacement, or any other capital replacement program initiated by the City Manager and approved by the City Council.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Fund balance classification (continued)

- Reduction or avoidance of debt. If there is short-term debt within the fund, the surplus may be applied to reduce or eliminate the debt if financial analysis by the City Manager proves this to be advantageous for the City. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the City needs to obtain if financial analysis by the City Manager proves this to be advantageous for the City.

In addition to the policy stated above regarding any fund surplus, the City Council approved a policy for a cash reserve fund of the unassigned fund balance of the General Fund as follows:

- In the general fund, there shall be created a Cash Reserve equal to a minimum of 33.33% of the current fiscal year operating expense portion of the budget for the general fund. For the purposes of this calculation, the current fiscal year operating budget shall be the budget as originally adopted by ordinance. This reserve shall be in addition to all other reserves as may be required to account for special revenue activity or other activity that may require a restriction of cash. In any fiscal year when the City is unable to create the Cash Reserve as required by this section, the City shall (a) not budget any amount of fund balance for the purpose of balancing the budget and (b) have its City Manager identify in a written plan to the City Council how to reach this minimum fund balance level within 24 months.
- Emergency/Hurricane Recovery Fund - The City recognizes being a coastal community that it is subject to disasters that require significant recovery expenses that may or may not be reimbursed in part or in full from the State of Florida and/or the federal government. Such reimbursements, should they occur may take in excess of one year for payment to the City. Therefore, the Emergency/Hurricane Recovery Fund shall be created as a Cash Reserve equal to a minimum of 33.33% of the current fiscal year's operating and capital outlay budgets for the general fund. For the purposes of this calculation, the current fiscal year budget shall be the budget as originally adopted by ordinance. This reserve shall be in addition to all other reserves as may be required to account for special revenue activity or other activity that may require a restriction of cash. In any fiscal year when the City is unable to create the Cash Reserve as required by this section, the City shall (a) not budget any amount of fund balance for the purpose of balancing the budget and (b) have its City Manager identify in a written plan to the Council how to reach this minimum fund balance level within 24 months.
- Building Renewal, Replacement and Betterment Fund - The Building Renewal, Replacement and Betterment Fund (BRR&B) is created to appropriate a beginning balance that is rolled over and enhanced each year to construct new structures or enhance existing structures. The initial deposit to the BRR&B Fund is ten percent of the fiscal year 2018 general fund budget. It shall be the goal of the City to enhance the BRR&B Fund Balance with unexpended budget appropriations from the prior year's Capital Projects Fund.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Fund balance classification (continued)

For the year ending September 30, 2018, the breakout of the fund balances is shown below:

| | General Fund | Other Governmental Funds | Total |
|---------------------------|---------------|--------------------------------|---------------|
| Nonspendable for prepaids | \$ 5,835 | \$ - | \$ 5,835 |
| Restricted | | | |
| Law enforcement | - | 22,111 | 22,111 |
| Grants | 231,016 | - | 231,016 |
| Stormwater | - | 236,219 | 236,219 |
| Committed | | | |
| Budgeted use of reserves | 40,212 | - | 40,212 |
| Unassigned | 10,302,509 | - | 10,302,509 |
| Total fund balance | \$ 10,579,572 | \$ 258,330 | \$ 10,837,902 |

The \$231,016 of restricted general fund balance has been restricted for the purpose of the Transportation Impact Fee Trust Fund grant. The \$40,212 committed balance is related to various vendors.

16. Accounting and financial reporting for pensions

GASB Statement No. 68, *Accounting for Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 (as amended)*, was issued June 2012 and effective for periods beginning after June 15, 2014. The City's active pension employees are members of the Florida Retirement System, Health Insurance Subsidy, Municipal Police Officers' Retirement Trust Fund, and Police Officers' Supplemental Pension Plan and the primary activity associated with the pension arrangements are to be reflective for the year ending September 30, 2018 (Notes G through J).

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City's deposits and investments are insured by the Federal Depository Insurance Corporation ("FDIC") for up to \$250,000. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the City pursuant to Section 280.08, Florida Statutes. Financial institutions must meet the criteria of being a Qualified Public Depository as described in the Florida Security for Public Deposits Act, under Chapter 280, Florida Statutes, before any investments are made with those institutions.

The deposits with the State Board of Administration (the "SBA"), Florida Municipal Investment Trust ("FMIVT"), and with Florida Surplus Asset Fund Trust (the "Florida SAFE") are composed of local government surplus funds deposited therein by units of local government and are insured by the multiple financial institution collateral pool established by Florida Statutes. Section 218.407, Florida Statutes, governs the investing of public funds with the SBA.

The Florida PRIME is operated as a "2a-7 like" money market fund. As of September 30, 2018, the City had \$264,191 in the Florida PRIME.

The FMIVT and the Florida SAFE are authorized investments under section 218.415, Florida Statutes as intergovernmental investment pools authorized pursuant to the "Florida Interlocal Cooperation Act" as provided in section 163.01, Florida Statutes. The investments consist largely of federal agency obligations, primary dealer repurchase agreements, and highly rated commercial paper.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

The following deposit accounts were included in the various funds at September 30, 2018:

| Deposits and insured investments | Balance | Duration | Rating |
|---|---------------|------------|-----------------|
| Cash | \$ 9,318,009 | N/A | Not rated |
| Public funds now | 50,545 | N/A | Not rated |
| Local government pooled investment accounts: | | | |
| Florida PRIME | 264,191 | 33 days | AAAm (S&P) |
| Florida municipal investment trust | 222,560 | 0.67 years | AAAf/S1 (Fitch) |
| Florida SAFE | 948,116 | < 60 days | AAAm (S&P) |
| Total cash, cash equivalents, and investments | \$ 10,803,421 | | |
| Defined benefit plan (fiduciary fund) | | | |
| Cash | \$ 1,091 | N/A | Not rated |
| Bond Fund | 39,556 | 5 years | AAf/S4 (Fitch) |
| Fixed income fund | 46,922 | 2.13 years | Not rated |
| Equity funds | 185,234 | N/A | Not rated |
| | \$ 272,803 | | |

As of September 30, 2018, all of the local government investment accounts were rated as shown in the table above. Total cash, cash equivalents, and investments are \$10,572,405 unrestricted and \$231,016 restricted.

Investment Policy, Interest Rate Risk, Credit Risk & Concentration Risk - The City's adopted investment guidelines require that the investments of the City be limited to those investments contained in Florida Statutes 218.415(17) subparagraphs (a) through (d), which allow investments in the local government pooled investment account, securities and exchange commission money market funds which are required to have the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the United States Treasury.

The City's investment policy does not further limit its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest nor does it further limit its investment choices to mitigate its exposure to credit risk.

The investments in the City's defined benefit plan are with an investment pool and not the individual securities that make up the pool.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

In adherence with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the City reports its investments in Florida PRIME and Florida SAFE at amortized cost because Florida PRIME and Florida SAFE are external investment pools that report their investments at amortized cost. The City's Florida municipal investment trust (FMIvT) and defined benefit plan (fiduciary fund) are recorded at fair value.

The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The statement establishes a hierarchy of inputs to valuation techniques to measure fair value with three levels.

- > Level 1 inputs are the quoted price (unadjusted) in active markets for identical assets and liabilities;
- > Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- > Level 3 inputs are unobservable inputs, such as management's assumptions of the default rate among underlying mortgages of a mortgage-backed security.

The following table presents a summary of the City's Florida municipal investment trust (FMIvT) according to the fair value hierarchy as of September 30, 2018:

| Description | Fair Value | Level 1 | Level 2 | Level 3 |
|----------------------------------|------------|---------|------------|---------|
| FMIvT 0-2 Year High Quality Bond | \$ 222,560 | \$ - | \$ 222,560 | \$ - |

The following table presents a summary of the City's defined benefit plan (fiduciary fund) according to the fair value hierarchy as of September 30, 2018:

| Description | Fair Value | Level 1 | Level 2 | Level 3 |
|---|------------|---------|------------|-----------|
| FMIvT Broad Market High Quality Bond | \$ 39,557 | \$ - | \$ 39,557 | \$ - |
| FMIvT Core Plus | 46,922 | - | - | 46,922 |
| FMIvT Large Cap Diversified Value | 89,207 | - | 89,207 | - |
| FMIvT Diversified Small to Mid Cap Equity | 32,736 | - | 32,736 | - |
| FMIvT International Equity | 38,738 | - | 38,738 | - |
| FMIvT Core Real Estate | 24,552 | - | - | 24,552 |
| Total | 271,712 | \$ - | \$ 200,238 | \$ 71,474 |
| Cash | 1,091 | | | |
| Total cash and cash equivalents | \$ 272,803 | | | |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE C - RECEIVABLES

1. Receivables

Receivables at September 30, 2018, consist of the following:

| | General Fund | Other Governmental Funds |
|----------------|-------------------|--------------------------------|
| Taxes | \$ 63,417 | \$ - |
| Franchise fees | 96,611 | - |
| Utilities | 76,889 | - |
| Other | 63,719 | 27 |
| | <u>\$ 300,636</u> | <u>\$ 27</u> |

2. Special assessments

The City has levied special assessments against the benefiting property owners of various canal dredging improvement projects that the City has undertaken since 2005. These assessments are levied to reimburse the City for a predetermined portion of the total expenses for the improvement projects. The aforementioned residents entered into individual promissory notes with the City, in which they will make a one-time payment for the total amount due or will be subject to an interest rate of 5% per annum, payable in quarterly installments for ten years. The City believes that all amounts will be collectible; therefore, there is not an allowance for doubtful account. The final canal assessment payment was received on April 6, 2018. There was no outstanding balance on September 30, 2018.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ending September 30, 2018 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 3,050,325 | \$ - | \$ - | \$ 3,050,325 |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 4,869,118 | 19,857 | 5,390 | 4,883,585 |
| buildings | 2,737,373 | 183,777 | 31,497 | 2,889,653 |
| Equipment | 2,316,909 | 287,122 | 178,622 | 2,425,409 |
| Motor vehicles | 1,814,636 | 125,816 | - | 1,940,452 |
| Software | 192,613 | 744 | - | 193,357 |
| Infrastructure | 8,972,942 | 449,037 | - | 9,421,979 |
| Total capital assets being depreciated | 20,903,591 | 1,066,353 | 215,509 | 21,754,435 |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 2,222,951 | 136,720 | 4,284 | 2,355,387 |
| buildings | 925,206 | 126,091 | 28,168 | 1,023,129 |
| Equipment | 1,393,286 | 178,597 | 169,611 | 1,402,272 |
| Motor vehicles | 1,156,206 | 110,205 | - | 1,266,411 |
| Software | 106,521 | 10,704 | - | 117,225 |
| Infrastructure | 2,070,765 | 419,913 | - | 2,490,678 |
| Total accumulated depreciation | 7,874,935 | 982,230 | 202,063 | 8,655,102 |
| Total capital assets, being depreciated, net | 13,028,656 | 84,123 | 13,446 | 13,099,333 |
| Governmental activities capital assets, net | \$16,078,981 | \$ 84,123 | \$ 13,446 | \$16,149,658 |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE D - CAPITAL ASSETS (continued)

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

| | | |
|--------------------|----|----------------|
| General government | \$ | 54,286 |
| Public safety | | 230,082 |
| Transportation | | 478,067 |
| Recreation | | 219,795 |
| | | <u>219,795</u> |
| | \$ | <u>982,230</u> |

NOTE E - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2018:

| Long-term liabilities | Balance at October 1, 2017, restated | Increases | Decreases | Balance at September 30, 2018 | Due within one year |
|-----------------------|---|---------------------|---------------------|-------------------------------------|------------------------|
| Compensated absences | \$ 671,064 | \$ 367,755 | \$ 401,670 | \$ 637,149 | \$ 318,574 |
| OPEB | 394,335 | 34,492 | - | 428,827 | - |
| Net pension liability | 3,487,585 | 2,449,380 | 2,311,428 | 3,625,537 | - |
| | <u>\$ 4,552,984</u> | <u>\$ 2,851,627</u> | <u>\$ 2,713,098</u> | <u>\$ 4,691,513</u> | <u>\$ 318,574</u> |

Compensated absences in the governmental activities are classified as non-current liabilities and in the past have been paid out of the general fund. Beginning OPEB liability has been restated by \$11,665 (see Note K-8).

NOTE F - UNEARNED REVENUE

Unearned revenue at September 30, 2018, consists of the following:

| | | |
|------------------------|----|---------------|
| Unearned business tax | \$ | 24,463 |
| Other unearned revenue | | 12,792 |
| | | <u>12,792</u> |
| Total unearned revenue | \$ | <u>37,255</u> |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER

Municipal Police Officers' Retirement Fund (MPORF)

1. Plan description

The MPORF is a single-employer, defined benefit pension plan, which covers all of the City's police officers. The MPORF was created by Section 13.36 of the City of Indian Harbour Beach, Florida, Municipal Code.

The MPORF is administered by a five member Board of Trustees. The Board of Trustee members are selected as follows: two members are City Council appointees who are City residents, two are elected by members of the police department, and one is appointed by the other four members and approved by the City Council.

All of the City's full-time police officers participate in the MPORF, which includes a deferred compensation MPORF. Current membership in the MPORF is comprised of the following:

| <u>Group</u> | <u>Participants</u> |
|---------------------|---------------------|
| Actives | 19 |
| Service retirees | 9 |
| DROP retirees | 1 |
| Beneficiaries | 0 |
| Disability retirees | 1 |
| Terminated vested | 3 |
| Total | <u>33</u> |

As of November 10, 1998, Ordinance No. 98-3, amended through Ordinance No. 2001-1, was adopted which stated employees attaining the age of 52 and who have completed ten years or more of service are entitled to annual benefits equal to three percent of their Average Final Compensation times years of credited service. Average Final Compensation is the average compensation for the five final calendar years of employment.

Employees who have attained the age of 50 and who have completed at least ten years of service are eligible for early retirement. This entitles the employee to receive benefits computed similarly to normal retirement as described above, reduced three percent for each year that the early retirement precedes normal retirement.

Active employees who are determined to have a disability in service are entitled to receive benefits. The benefit amount is the greater of 50% of the regular base salary or the accrued benefit for life and the life of the surviving beneficiary in the event of death with the first 120 payments guaranteed.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

1. Plan description (continued)

If a member dies and the death was service related, his or her surviving beneficiary receives annual benefits equal to 50 percent of the member's base pay on date of death, payable until death or remarriage. If there is no spouse, or upon death or remarriage, then benefits are equal to 15 percent of the base pay, payable to each unmarried child until the age of 18 (or to age 22, if in school), with a maximum of 50 percent. If the death is non-service related then benefits are equal to 50 percent of base pay payable monthly for a period of one year. If death occurs and the member is eligible for retirement, the beneficiary receives the accrued benefit for ten years.

If an employee terminates his or her employment as a police officer and is not eligible for any other benefits under the MPORF, the employee is entitled to the following:

- > with less than ten years of continuous service, a refund of member contribution without interest.
- > with ten years or more of continuous service, accrued benefit payable at normal retirement date if member contributions left in fund, or a refund of contribution without interest.

The MPORF issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Indian Harbour Beach Municipal Police Officers' Retirement Fund, 40 Cheyenne Court, Indian Harbour Beach, FL 32937.

2. Funding policy

The contribution requirements of the MPORF members and the City are established in a collective bargaining labor agreement.

Police officers are required to contribute 6.5 percent of their annual salary to the MPORF. During fiscal year 2018, the City received contributions of approximately 6.2 percent of the total annual payroll, from the State of Florida, which are credited towards part of the City's annual required contribution. (The state provided contributions do not meet the criteria for special funding situations under GASB 68.) The City is required to contribute the remaining amounts necessary to fund the MPORF, using the entry age normal actuarial method and the amortization of the accrued past service liability over 30 years. Administrative costs are financed through investment earnings.

The City's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The contribution rate for normal cost is determined using the projected benefits actuarial funding method with proration based on service.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

2. Funding policy (continued)

The estimated contribution requirements for the year ended September 30, 2018, determined through an actuarial valuation as of October 1, 2016, that was rolled forward to September 30, 2017 (measurement date), consisted of the following: employees - estimated 6.5% of current year covered payroll and City and State - 46.5% of the projected current year covered payroll, both of which are normal costs. The City recognized \$519,445 of City and State contributions and \$83,941 of employee contributions during the fiscal year ended September 30, 2018.

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

For the fiscal year ended September 30, 2018, the City reported the changes in net pension liability from the following sources:

| Changes in net pension liability | Increase (Decrease) | | |
|--|--------------------------------|--------------------------------------|------------------------------------|
| | Total pension liability (a) | Plan's fiduciary net position (b) | Net pension liability (a) - (b) |
| Beginning balances of: | \$10,183,238 | \$ 8,679,051 | \$ 1,504,187 |
| Service cost | 413,130 | - | 413,130 |
| Interest on the total pension liability | 803,022 | - | 803,022 |
| Differences between expected and actual experience | 321,969 | - | 321,969 |
| Contributions - buy back | 2,700 | 2,700 | - |
| Contributions from the City | - | 451,991 | (451,991) |
| Contributions from the State (non-special funding) | - | 67,454 | (67,454) |
| Contributions from employees | - | 83,941 | (83,941) |
| Net investment income | - | 1,074,828 | (1,074,828) |
| Benefit payments | (469,598) | (469,598) | - |
| Plan administrative expense | - | (25,091) | 25,091 |
| Ending balances of: | \$11,254,461 | \$ 9,865,276 | \$ 1,389,185 |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$645,272. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 257,576 | \$ 225,912 |
| Change in assumptions | 313,170 | - |
| Net difference between projected and actual earnings on pension plan investments | 273,214 | 337,006 |
| City pension plan contributions subsequent to the measurement date | <u>563,893</u> | <u>-</u> |
| Total | <u>\$ 1,407,853</u> | <u>\$ 562,918</u> |

The deferred outflows of resources related to the pension plan, totaling \$563,893 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

| Fiscal Year Ending <u>September 30:</u> | <u>Amount</u> |
|--|---------------|
| 2019 | \$ 104,014 |
| 2020 | 122,712 |
| 2021 | 69,499 |
| 2022 | (15,183) |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

4. Actuarial assumptions

The total pension liability in the October 1, 2016 actuarial valuation was determined using the following actuarial assumption:

| | |
|---------------------------|-------|
| Inflation | 3.00% |
| Salary increases | 6.00% |
| Discount rate | 7.75% |
| Investment rate of return | 7.75% |

Mortality Rate Healthy Lives

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB

Male: RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB

Mortality Rate Disabled Lives

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale

Mortality rates were based on the above. The most recent actuarial experience study used to review the other significant assumptions was dated August 29, 2014.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic equity | 45% | 6.50% |
| International equity | 15% | 6.75% |
| Fixed income | 40% | 2.25% |
| Total | <u>100%</u> | |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

5. Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the City 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.

6. Sensitivity of net pension liability to changes in the discount rate

The following represents the City's net pension liability calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount Rate (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|------------------------------|--------------------------------|--|--------------------------------|
| City's net pension liability | <u>\$ 2,903,830</u> | <u>\$ 1,389,185</u> | <u>\$ 151,388</u> |

7. Pension plan fiduciary net position

Detailed information regarding the pension plan's fiduciary net position is available in the separately issued financial statements for the pension plan from the City.

8. Payables to the pension plan

At September 30, 2018, the City reported a payable in the amount of \$18,695 for outstanding contributions to the pension plan required for the fiscal year ended September 30, 2018.

9. Deferred retirement option plan

On August 23, 2011, the City Council approved ordinance 2011-1 "Deferred Retirement Option Plan" to establish a Deferred Retirement Option Plan ("DROP") for police officers. The DROP program was effective as of the date of approval by the City Council.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G - EMPLOYEE RETIREMENT SYSTEMS SINGLE-EMPLOYER (continued)

Municipal Police Officers' Retirement Fund (MPORF) (continued)

9. Deferred retirement option plan (continued)

Once a police officer achieves normal retirement age under the City of Indian Harbour Beach's Police Officers' Retirement System, as described above, an officer may elect to enter the DROP program for a period of no less than twelve months and no more than thirty six months. During this time, the benefit that would have been received had the officer terminated employment will be deposited into a DROP account to accumulate interest and earnings. As of September 30, 2018, there was one City employee in the MPORF DROP program.

NOTE H - EMPLOYEE RETIREMENT SYSTEMS MULTI-EMPLOYER

Police Officers' Supplemental Pension Plan (POSPP)

1. Plan description

The POSPP is an agent multiple-employer, defined benefit pension plan, which covers all of the City's police officers. The POSPP was created by Ordinance 2010-19 of the City of Indian Harbour Beach, Florida.

If an employee terminates his or her employment as a police officer and is not eligible for any other benefits under the POSPP, the employee is entitled to the following:

- with less than ten years of continuous service, the member shall not be entitled to any benefits under the plan.
- with ten years or more of continuous service, the accrued retirement benefit to the date of termination, payable commencing at his or her normal retirement date of age 52, and provided survival to the normal retirement date.

Under Ordinance 2012-3 of the City, officers that qualify for early retirement will receive all of their benefits.

The number of covered individuals is 35 (13 inactive employees and beneficiaries currently receiving benefits; two inactive employees entitled to but not yet receiving benefits; and 20 active employees).

The Board of Trustees of the City of Indian Harbour Beach Police Officers' Supplemental Pension Plan is composed of three members of the City of Indian Harbour Beach's administration: City Manager, City Comptroller and City Clerk.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H - EMPLOYEE RETIREMENT SYSTEMS MULTI-EMPLOYER (continued)

Police Officers' Supplemental Pension Plan (POSPP) (continued)

2. Funding policy

The City will contribute the necessary amount to fund the POSPP, using the entry age normal actuarial cost method. No explicit administrative costs are assumed. The assumed interest rate is net of investment expenses and commissions.

All of the City's full-time police officers participate in the POSPP, which includes a deferred compensation POSPP. The City recognized \$30,984 of City contributions during the fiscal year ended September 30, 2018.

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

For the fiscal year ended September 30, 2018, the City reported the changes in net pension liability from the following sources:

| Changes in net pension liability | Increase (Decrease) | | |
|----------------------------------|--------------------------------|--------------------------------------|------------------------------------|
| | Total pension liability (a) | Plan's fiduciary net position (b) | Net pension liability (a) - (b) |
| Beginning balances of: | \$ 256,798 | \$ 202,859 | \$ 53,939 |
| Service cost | 5,998 | - | 5,998 |
| Expected interest growth | 17,831 | 14,662 | 3,169 |
| Unexpected investment income | - | 12,752 | (12,752) |
| Demographic experience | (2,662) | - | (2,662) |
| Contributions from the City | - | 30,984 | (30,984) |
| Benefit payments and refunds | (13,005) | (13,005) | - |
| Plan administrative expense | - | (4,569) | 4,569 |
| Assumption changes | 7,819 | - | 7,819 |
| Ending balances of: | <u>\$ 272,779</u> | <u>\$ 243,683</u> | <u>\$ 29,096</u> |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H - EMPLOYEE RETIREMENT SYSTEMS MULTI-EMPLOYER (continued)

Police Officers' Supplemental Pension Plan (POSPP) (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$18,515. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| | <hr/> | <hr/> |
| Differences between expected and actual experience | \$ 3,291 | \$ 7,649 |
| Change in assumptions | 39,761 | - |
| Net difference between projected and actual earnings on pension plan investments | 5,065 | 11,055 |
| City pension plan contributions subsequent to the measurement date | 31,687 | - |
| | <hr/> | <hr/> |
| Total | <u>\$ 79,804</u> | <u>\$ 18,704</u> |

The deferred outflows of resources related to the pension plan, totaling \$31,687 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

| Fiscal Year Ending | Amount |
|----------------------|----------|
| <u>September 30:</u> | <hr/> |
| 2019 | \$ 4,780 |
| 2020 | 4,530 |
| 2021 | 2,124 |
| 2022 | 2,405 |
| 2023 | 4,957 |
| Thereafter | 10,617 |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H - EMPLOYEE RETIREMENT SYSTEMS MULTI-EMPLOYER (continued)

Police Officers' Supplemental Pension Plan (POSPP) (continued)

4. Actuarial assumptions

The total pension liability in the October 1, 2016, actuarial valuation was determined using the following actuarial assumptions, and rolled forward and applied to all periods included in the measurement:

| | |
|------------------|-------|
| Inflation | 2.92% |
| Salary increases | 4.00% |
| Discount rate | 7.00% |

The mortality basis utilized was the sex-distinct rates set forth in the RP-2000 Blue Collar Mortality Table with full generational improvements in mortality using Scale BB.

The long-term expected rate of return on pension plan investments was determined using a weighted arithmetic average. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the September 30, 2017 measurement date, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation (1)</u> | <u>Long term Real Rate of Return</u> |
|-----------------------|------------------------------|--------------------------------------|
| Core bonds | 16% | 0.58% |
| Multi-sector | 24% | 1.08% |
| U.S. large cap equity | 39% | 6.08% |
| U.S. small cap equity | 11% | 6.83% |
| Non-U.S. equity | 10% | 6.83% |
| Total | 100% | 4.08% |

(1) As outlined in the Pension Plan's investment policy

5. Discount rate

The discount rate used to measure the total pension liability was 7.00%. The fiduciary net position is projected to be sufficient to cover all future benefit payments when due. The plan requires only a 7.00% average investment return per year to avoid a crossover date. 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.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H - EMPLOYEE RETIREMENT SYSTEMS MULTI-EMPLOYER (continued)

Police Officers' Supplemental Pension Plan (POSPP) (continued)

6. Sensitivity of net pension liability to changes in the discount rate

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

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|------------------------------|------------------------|-------------------------------------|------------------------|
| City's net pension liability | <u>\$ 58,380</u> | <u>\$ 29,096</u> | <u>\$ 4,517</u> |

7. Pension plan fiduciary net position

Detailed information regarding the pension plan's fiduciary net position is available in the fiduciary financial statements for the pension plan included in the City's financial statements.

8. Payables to the pension plan

At September 30, 2018, the City reported a payable in the amount of \$865 for outstanding contributions to the pension plan required for the fiscal year ended September 30, 2018.

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING

Florida Retirement System

General Information - All of the City's employees other than police officers participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("Pension Plan") and the Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA").

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating City or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site:

www.dms.myflorida.com/workforce_operations/retirement/publications.

1. Pension description

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

Benefits under the pension plan are computed on the basis of age, average final compensation, and service credit. For pension plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

1. Pension description (continued)

Elected Officers class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increases normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

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

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

2. Funding policy

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2017 through June 30, 2018 and from July 1, 2018 through September 30, 2018, respectively, were as follows: Regular—7.92% and 8.26%; Special Risk Administrative Support—34.63% and 34.98%; Special Risk—23.27% and 24.50%; Senior Management Service—22.71% and 24.06%; Elected Officers—45.50% and 48.70%; and DROP participants—13.26% and 14.03%.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

These employer contribution rates include 1.66% HIS Plan subsidy for the period of October 1, 2017 through September 30, 2018.

The City recognized \$130,225 of FRS contributions during the fiscal year ended September 30, 2018.

At September 30, 2018, the City reported a liability of \$1,546,156 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2016-2017 fiscal year contributions relative to the 2015-2016 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.0050 percent, which was an increase of 0.0002 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$327,534. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 130,494 | \$ 7,880 |
| Change in assumptions | 477,851 | - |
| Net difference between projected and actual earnings on Pension Plan investments | - | 34,836 |
| Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions | 82,762 | 12,659 |
| City Pension Plan contributions subsequent to the measurement date | 103,868 | - |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 794,975</u> | <u>\$ 55,375</u> |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

The deferred outflows of resources related to the Pension Plan, totaling \$103,868 resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

| Fiscal Year Ending September 30: | Amount |
|-------------------------------------|-----------|
| 2019 | \$ 87,942 |
| 2020 | 215,232 |
| 2021 | 157,702 |
| 2022 | 39,379 |
| 2023 | 101,355 |
| Thereafter | 34,122 |

4. Actuarial assumptions

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflation |
| Investment rate of return | 7.10%, net of pension plan investment expense, including inflation |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

4. Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. 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. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation (1) | Annual Arithmetic Return | Compound Annual (Geometric) Return | Standard Deviation |
|--------------------------|--------------------------|--------------------------------|---|-----------------------|
| Cash | 1% | 3.0% | 3.0% | 1.8% |
| Fixed income | 18% | 4.5% | 4.4% | 4.2% |
| Global equity | 53% | 7.8% | 6.6% | 17.0% |
| Real estate (property) | 10% | 6.6% | 5.9% | 12.8% |
| Private equity | 6% | 11.5% | 7.8% | 30.0% |
| Strategic investments | 12% | 6.1% | 5.6% | 9.7% |
| Total | <u>100%</u> | | | |
| Assumed Inflation - Mean | | | 2.6% | 1.9% |

(1) As outlined in the Pension Plan's investment policy

5. Discount rate

The discount rate used to measure the total pension liability was 7.10%. The pension 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 used in the calculation of the total pension liability is equal to the long-term expected rate of return.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE I - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING (continued)

Florida Retirement System (continued)

6. Sensitivity of net pension liability to changes in the discount rate

The following represents the City's proportionate share of the net pension liability using the discount rate of 7.10%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

| | 1% Decrease (6.10%) | Current Discount Rate (7.10%) | 1% Increase (8.10%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 2,678,126 | \$ 1,546,156 | \$ 484,690 |

7. Pension plan fiduciary net position

Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

8. Payables to the pension plan

At September 30, 2018, the City reported a payable related to the Florida Retirement System and Health Insurance Subsidy in the amount of \$6,947 for outstanding contributions required for the fiscal year ended September 30, 2018.

NOTE J - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING SUPPLEMENT

Health Insurance Supplement (HIS)

1. Plan description

The HIS plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE J - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING SUPPLEMENT (continued)

Health Insurance Supplement (HIS) (continued)

1. Plan description (continued)

For the fiscal year ended September 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

2. Funding policy

The HIS plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2018, the HIS contribution was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City recognized \$31,948 of HIS contributions during the fiscal year ended September 30, 2018.

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At September 30, 2018, the City reported a liability of \$661,100 for its proportionate share of the HIS plan's net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2016-2017 fiscal year contributions relative to the 2015-2016 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.0060 percent, which was an increase of 0.0001 percent from its proportionate share measured as of June 30, 2016.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE J - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING SUPPLEMENT (continued)

Health Insurance Supplement (HIS) (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

For the fiscal year ended September 30, 2018, the City recognized pension expense of \$73,224. In addition, the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ - | \$ 1,297 |
| Change in assumptions | 87,580 | 55,814 |
| Net difference between projected and actual earnings on Pension Plan investments | 340 | - |
| Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions | 65,296 | 13,621 |
| City Pension Plan contributions subsequent to the measurement date | <u>24,492</u> | <u>-</u> |
| Total | <u><u>\$ 177,708</u></u> | <u><u>\$ 70,732</u></u> |

The deferred outflows of resources related to the HIS plan, totaling \$24,492 resulting from City contributions to the HIS plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2019.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE J - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING SUPPLEMENT (continued)

Health Insurance Supplement (HIS) (continued)

3. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS plan will be recognized in pension expense as follows:

| Fiscal Year Ending September 30: | Amount |
|-------------------------------------|-----------|
| 2019 | \$ 19,145 |
| 2020 | 19,078 |
| 2021 | 19,045 |
| 2022 | 19,829 |
| 2023 | 11,001 |
| Thereafter | (5,614) |

4. Actuarial assumptions

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------|-------------------------------------|
| Inflation | 2.60% |
| Salary increases | 3.25%, average, including inflation |
| Municipal bond rate | 3.58% |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE J - EMPLOYEE RETIREMENT SYSTEMS COST-SHARING SUPPLEMENT (continued)

Health Insurance Supplement (HIS) (continued)

5. Discount rate

The discount rate used to measure the total pension liability was 3.58%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

6. Sensitivity of net pension liability to changes in the discount rate

The following represents the City's proportionate share of the net pension liability using the discount rate of 3.58%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

| | 1% Decrease (2.58%) | Current Discount Rate (3.58%) | 1% Increase (4.58%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 736,558 | \$ 661,100 | \$ 569,585 |

7. Pension plan fiduciary net position

Detailed information regarding the HIS plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

8. Payables to the pension plan

At September 30, 2018, the City reported a payable related to the Florida Retirement System and Health Insurance Subsidy in the amount of \$6,947 for outstanding contributions required for the fiscal year ended September 30, 2018.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE K - OTHER POST EMPLOYMENT BENEFITS

1. Plan description

The City administers a single employer defined benefit employee group medical insurance plan (the "Plan") that provides medical insurance benefits to its employees and their eligible dependents. In accordance with Section 112.0801 of the Florida Statutes, because the City provides a medical plan to active employees and their eligible dependents, the City is also required to provide retirees with the opportunity to participate in this Plan. Benefit provisions for the Plan are established and may be amended by the City Council. The retirees pay the full group premium amount for health insurance with no explicit subsidy from the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

2. Funding policy

Contribution rates for the Plan are established on an annual basis. Eligible retirees receiving benefits contribute 100% of their premium costs for medical insurance. While the City does not directly contribute towards the costs of retiree premiums via an explicit subsidy, the ability of retirees to obtain health insurance coverage at a group rate which includes active employees constitutes a significant economic benefit to retirees, or an "implicit" subsidy. This implicit subsidy is considered to be an Other Post Employment Benefit (OPEB) obligation of the City. An implied monthly subsidy of \$500 for the retiree and \$575 for the retiree's spouse has been assumed at age 62 for the current fiscal year. At other ages, the implied subsidy was developed based on the age-related morbidity assumption and, for other fiscal years, the implied subsidy was increased in accordance with the healthcare cost trend rates. The Plan does not issue a publicly available financial report.

Retirement is assumed to occur at age 52 (for police officers), age 62 (for general employees hired prior to July 1, 2011), or age 65 (for general employees hired after June 30, 2011). Husbands are assumed to be three years older than wives, and retirees are not assumed to have any dependent children. No implied subsidy is assumed with respect to life insurance for retirees.

As of September 30, 2018, the following employees were covered by the City's Plan:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 0 |
| Inactive employees entitled to but not yet receiving benefits | 0 |
| Active employees | <u>54</u> |
| Total | <u><u>54</u></u> |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE K - OTHER POST EMPLOYMENT BENEFITS (continued)

3. Actuarial assumptions and other inputs

The City's total OPEB liability of \$428,827 was measured as of September 30, 2017 and was determined by an actuarial valuation as of October 1, 2016, using the following actuarial assumptions and other inputs:

| | |
|--|--|
| Salary increases | 3% per annum |
| Discount rate | 2.8% (based on 20-year municipal bond index as provided by Asset Consulting Group) |
| Healthcare cost trend rates | 8% for the current fiscal year decreasing by 0.50% per year to 5% for fiscal year 2024 and later |
| Retirees' share of benefit-related costs | Retirees must contribute an amount determined periodically by the insurance carrier equal to 100% of applicable health insurance premium |

The mortality table used was the RP-2000 Combined Mortality Table with full generational improvements in mortality using Scale AA. No formal experience studies were conducted.

4. Changes in the total OPEB liability

The beginning balance was restated by \$11,665. See Note K-8.

| | Total OPEB Liability |
|---|-------------------------|
| Balance as of October 1, 2017, restated | \$ 394,335 |
| Changes for the year: | |
| Service cost | 32,320 |
| Expected interest growth | 11,812 |
| Benefit payments and refunds | (9,640) |
| Balance as of September 30, 2018 | <u>\$ 428,827</u> |

5. Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.80%) or one percentage point higher (3.80%) than the current rate.

| | 1% Decrease (1.80%) | Discount Rate (2.80%) | 1% Increase (3.80%) |
|----------------------|------------------------|--------------------------|------------------------|
| Total OPEB liability | <u>\$ 473,041</u> | <u>\$ 428,827</u> | <u>\$ 386,629</u> |

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE K - OTHER POST EMPLOYMENT BENEFITS (continued)

6. Sensitivity of the total OPEB liability to changes in the healthcare trend rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (7.00% percent decreasing to 4.00%) or one percentage point higher (9.00% percent decreasing to 6.00%) than the current healthcare cost trend rates:

| | 1% Decrease (7.00% decreasing to 4.00%) | Current Rate (8.00% decreasing to 5.00%) | 1% Increase (9.00% decreasing to 6.00%) |
|----------------------|--|---|--|
| Total OPEB liability | <u>\$ 364,875</u> | <u>\$ 428,827</u> | <u>\$ 506,332</u> |

7. OPEB expense, deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$34,492.

As of September 30, 2018, there were no deferred outflows of resources or deferred inflows of resources related to OPEB.

8. Change in accounting principle related to OPEB

Beginning net position was restated for the effect of implementing GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard states that the total OPEB liability is to be determined by an actuarial valuation as of the measurement date or the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year end. In addition, the deferred outflows of resources and deferred inflows of resources related to OPEB must be recognized. As a result of the implementation of this statement, beginning net position was increased by \$11,665 and beginning OPEB liability was reduced by the same amount.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE L - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 that is administered by an agent of the National Association of Counties. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1997, all assets and income of the plan are held in trust for the exclusive benefit of the participants in the plan; therefore, assets of the plan are not reported in the accompanying financial statements.

NOTE M - PROPERTY TAXES

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessments are also designed to assure a consistent property valuation method statewide. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2018 the City's millage rate was 5.6401 mills.

The tax levy of the City is established by the City Council prior to October 1 of each year and the Brevard County Property Appraiser incorporates the City millage into the total tax levy, which includes the County and the County School Board tax requirements among other overlapping governments. All property is reassessed 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 assessed value on January 1, 2017, upon which the 2017-2018 levy was based, was \$842,829,367.

All taxes are due and payable on November 1 (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed. 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 and 1% in the month of February. Taxes are paid in March without discount. Current tax collections, net of discounts taken, for the year ended September 30, 2018, were approximately 96.6% of the total tax levy.

On or prior to June 1 of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates are held by the County.

City of Indian Harbour Beach, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE N - COMMITMENTS AND CONTINGENCIES

The City is party to various pending or threatened legal actions arising in the normal course of operations. Although the outcome of these actions is not presently determinable, it is the City's opinion that any ultimate liability is not expected to have a material adverse effect on the City's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amount, if any, to be immaterial.

NOTE O - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. In order to limit its exposure to these risks, the City is a participant in the Florida League of Cities (a not-for-profit corporation) insurance program for workers compensation, general and auto liability. The insurance program purchases excess and specific coverages from third party carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. Participants are not assessed for unanticipated losses incurred by the program. Additionally, the City has purchased commercial property insurance and various other insurance coverages from third parties to cover other risks that the City may be exposed to. Premiums paid by the City during the year totaled \$197,056. There have been no significant reductions in insurance coverages during fiscal year 2018. Settled claims resulting from the risks described above have not exceeded the insurance coverage in any of the previous three years.

NOTE P - SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 23, 2019, the date which the financial statements were available for issuance, and has determined that no material events occurred that would require additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Indian Harbour Beach, Florida

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

Year ended September 30, 2018

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---------------------------------------|----------------------|----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 5,808,253 | \$ 5,878,262 | \$ 5,886,079 | \$ 7,817 |
| Permits, fees and special assessments | 642,400 | 764,453 | 769,125 | 4,672 |
| Intergovernmental | 818,428 | 946,440 | 857,594 | (88,846) |
| Charges for services | 262,262 | 261,411 | 261,598 | 187 |
| Judgments, fines and forfeits | 8,900 | 11,988 | 12,797 | 809 |
| Interest and other earnings | 49,662 | 129,243 | 153,197 | 23,954 |
| Miscellaneous | 422,365 | 70,162 | 70,747 | 585 |
| Total revenues | <u>8,012,270</u> | <u>8,061,959</u> | <u>8,011,137</u> | <u>(50,822)</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 1,319,129 | 1,835,873 | 1,271,830 | 564,043 |
| Public safety | 3,590,686 | 3,306,619 | 3,287,640 | 18,979 |
| Transportation | 1,387,596 | 1,245,309 | 1,223,651 | 21,658 |
| Recreation | 800,193 | 756,619 | 752,575 | 4,044 |
| Capital outlay | 914,666 | 917,539 | 917,410 | 129 |
| Total expenditures | <u>8,012,270</u> | <u>8,061,959</u> | <u>7,453,106</u> | <u>608,853</u> |
| Net change in fund balances | - | - | 558,031 | 558,031 |
| Fund balances at October 1, 2017 | <u>10,021,541</u> | <u>10,021,541</u> | <u>10,021,541</u> | - |
| Fund balances at September 30, 2018 | <u>\$ 10,021,541</u> | <u>\$ 10,021,541</u> | <u>\$ 10,579,572</u> | <u>\$ 558,031</u> |

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

September 30, 2018

Last 10 Fiscal Years*

| | <u>2018</u> |
|--|--------------------------|
| Total OPEB Liability | |
| Service cost | \$ 32,320 |
| Interest | 11,812 |
| Benefit payments | <u>(9,640)</u> |
| Net change in total OPEB liability | 34,492 |
| Total OPEB liability at beginning of year | <u>394,335</u> |
| Total OPEB liability at end of year | <u><u>\$ 428,827</u></u> |
| | |
| Covered-employee payroll | \$ 2,835,791 |
| | |
| Total OPEB liability as a percentage of covered-employee payroll | 15.12% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

No assets are accumulated in a trust that meets the criteria in GASB Statement 75, paragraph 4.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF NET PENSION LIABILITY -
FLORIDA MUNICIPAL POLICE OFFICERS' RETIREMENT FUND**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------|---------------|--------------|--------------|--------------|
| City's total pension liability | \$ 11,254,461 | \$ 10,183,238 | \$ 9,202,148 | \$ 9,168,538 | \$ 8,468,241 |
| The plan's fiduciary net position | 9,865,276 | 8,679,051 | 7,908,787 | 7,881,363 | 7,191,362 |
| City's net pension liability (asset) | 1,389,185 | 1,504,187 | 1,293,361 | 1,287,175 | 1,276,879 |
| City's covered payroll | 1,291,407 | 1,260,276 | 1,138,129 | 911,867 | 876,742 |
| City's net pension liability (asset) as a percentage of its covered payroll | 107.57% | 119.35% | 113.64% | 141.16% | 145.64% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.66% | 85.23% | 85.95% | 85.96% | 84.92% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF NET PENSION LIABILITY -
POLICE OFFICERS' SUPPLEMENTAL PENSION PLAN**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|
| City's total pension liability | \$ 272,779 | \$ 256,798 | \$ 251,963 | \$ 198,315 | \$ 186,958 |
| The plan's fiduciary net position | 243,683 | 202,859 | 173,381 | 120,128 | 100,198 |
| City's net pension liability (asset) | 29,096 | 53,939 | 78,582 | 78,187 | 86,760 |
| City's covered payroll | 875,892 | 830,401 | 929,086 | 1,005,543 | 1,124,957 |
| City's net pension liability (asset) as a percentage of its covered payroll | 3.32% | 6.50% | 8.46% | 7.78% | 7.71% |
| Plan fiduciary net position as a percentage of the total pension liability | 89.33% | 79.00% | 68.81% | 60.57% | 53.59% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY -
FLORIDA RETIREMENT SYSTEM**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|--|--------------|--------------|--------------|--------------|
| City's proportion of the net pension liability (asset) | 0.005002402% | 0.004836289% | 0.004479430% | 0.004107691% |
| City's proportionate share of the net pension liability (asset) | \$ 1,546,156 | \$ 1,235,263 | \$ 570,844 | \$ 236,188 |
| City's covered payroll | 1,860,042 | 1,836,270 | 1,708,020 | 1,495,194 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 83.12% | 67.27% | 33.42% | 15.80% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.89% | 84.88% | 92.00% | 96.09% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY -
HEALTH INSURANCE SUBSIDY**

Last 10 Fiscal Years*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|--------------|--------------|
| City's proportion of the net pension liability (asset) | 0.006036615% | 0.005863185% | 0.005463236% | 0.004971806% |
| City's proportionate share of the net pension liability (asset) | \$ 661,100 | \$ 694,196 | \$ 566,352 | \$ 465,504 |
| City's covered payroll | 1,860,042 | 1,836,270 | 1,708,020 | 1,495,194 |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 35.54% | 37.80% | 33.16% | 31.13% |
| Plan fiduciary net position as a percentage of the total pension liability | 1.64% | 0.97% | 0.50% | 0.99% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF CONTRIBUTIONS -
FLORIDA MUNICIPAL POLICE OFFICERS' RETIREMENT FUND**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|-------------|-------------|
| Contractually required contribution | \$ 521,728 | \$ 563,344 | \$ 545,405 | \$ 438,982 | \$ 361,218 |
| Excess state money reserve | - | (40,320) | - | - | - |
| Contributions in relation to the contractually required contribution | (489,080) | (568,723) | (604,769) | (438,982) | (361,218) |
| Contribution deficiency (excess) | \$ 32,648 | \$ (45,699) | \$ (59,364) | \$ - | \$ - |
| Covered payroll | \$ 1,291,407 | \$ 1,260,276 | \$ 1,138,129 | \$ 911,867 | \$ 876,742 |
| Contributions as a percentage of covered payroll | 37.87% | 45.13% | 53.14% | 48.14% | 41.20% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF CONTRIBUTIONS -
POLICE OFFICERS' SUPPLEMENTAL PENSION PLAN**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|--------------|--------------|
| Actuarially required contribution | \$ 25,625 | \$ 27,186 | \$ 25,258 | \$ 26,298 | \$ 28,747 |
| Contributions in relation to the contractually required contribution | (30,984) | (35,117) | (68,454) | (26,298) | (28,747) |
| Contribution deficiency (excess) | \$ (5,359) | \$ (7,931) | \$ (43,196) | \$ - | \$ - |
| Covered payroll | \$ 875,892 | \$ 830,401 | \$ 929,086 | \$ 1,005,543 | \$ 1,124,957 |
| Contributions as a percentage of covered payroll | 3.54% | 4.23% | 7.37% | 2.62% | 2.56% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF CONTRIBUTIONS -
FLORIDA RETIREMENT SYSTEM**

Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 130,225 | \$ 117,941 | \$ 109,212 | \$ 89,976 | \$ 57,988 |
| Contributions in relation to the contractually required contribution | (130,225) | (117,941) | (109,212) | (89,976) | (57,988) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 1,860,042 | \$ 1,836,270 | \$ 1,708,020 | \$ 1,495,194 | \$ 1,538,303 |
| Contributions as a percentage of covered payroll | 7.00% | 6.42% | 6.39% | 6.02% | 3.77% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF CONTRIBUTIONS -
HEALTH INSURANCE SUPPLEMENT**

Last 10 Fiscal Years*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 31,948 | \$ 30,053 | \$ 20,884 | \$ 17,032 | \$ 17,439 |
| Contributions in relation to the contractually required contribution | (31,948) | (30,053) | (20,884) | (17,032) | (17,439) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 1,860,042 | \$ 1,836,270 | \$ 1,708,020 | \$ 1,495,194 | \$ 1,538,303 |
| Contributions as a percentage of covered payroll | 1.72% | 1.64% | 1.22% | 1.14% | 1.13% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

**SCHEDULE OF INVESTMENT RETURNS -
POLICE OFFICERS' SUPPLEMENTAL PENSION PLAN**

Last 10 Fiscal Years*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return net of investment expense | 7.58% | 13.36% | 7.91% | -1.37% | 8.45% |

Information is required to be presented for 10 years. However, until a full 10 year trend is compiled, the City will present information for only those years for which information is available.

* The amounts presented for each fiscal year were determined as of September 30.

See notes to required supplementary information.

City of Indian Harbour Beach, Florida

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

NOTE A - LEGAL COMPLIANCE - BUDGETS

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Budgets may be amended by ordinance only. The budgets presented for fiscal year ended September 30, 2018, have been amended according to City procedures. All annual appropriations lapse at fiscal year-end.

On or before the first day of August of each year, the City Manager submits to the Council a budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.

Upon receipt of the budget from the City Manager, the Council shall have it published on the City bulletin board and in at least one local daily newspaper serving the City. The notice will show the times and place where copies of the budget will be available for inspection by the public and establish the time and place, not less than two weeks after publication, for a public hearing on the budget. Pursuant to Florida Statute 129.03, the tentative budget shall be posted on the official website of the City at least 2 days before the budget hearing to consider such budget. The final adopted budget shall be posted on the website within 30 days after adoption and any amendments to the adopted budget shall be posted on the website within 5 days after adoption.

After the public hearing, the Council may adopt the budget with or without amendments. In amending the budget, the Council may add, delete, increase or decrease any programs or amounts, other than expenditures required for debt service, provided that no amendment to the budget shall increase the authorized expenditure to an amount greater than the total of estimated income.

The budget shall be formally adopted no later than the twenty-seventh (27th) day of September of the ensuing year. Should the Council take no final action on or prior to that day, the budget, as submitted, shall be deemed to have been formerly adopted by the Council.

The Council may, by ordinance, transfer any unused and unencumbered appropriation or portion thereof between general classifications of expenditures within any office, department, or agency of the City, or may transfer any unused and unencumbered appropriation or portion thereof from any office, department, or agency to another.

The annual operating budget serves as legal authorization for expenditures and proposed means of financing them. The legal level of budgetary control is the department level. Budgetary information is integrated into the accounting system and appropriations are controlled at the object level within each department for management control purposes.

All appropriations shall lapse at the end of the budget year to the extent that such appropriations have not been expended or encumbered, and any appropriation made in one budget year shall not be valid or effective during any subsequent budget year.

City of Indian Harbour Beach, Florida

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2018

NOTE B - SCHEDULE OF NET PENSION LIABILITY

1. Ten year trend

GASB 68 requires information for 10 years. However, until a full 10-year trend is completed, the City is presenting information for only those years for which information is available for the Municipal Police Officers' Retirement Fund (MPORF) and Police Officers' Supplemental Pension (POSPP) plans.

2. Fiduciary net position

The MPORF plan's fiduciary net position as a percentage of the total pension liability is published in the City of Indian Harbour Beach, Municipal Police Officers' Retirement Fund financial statements.

The POSPP plan's fiduciary net position as a percentage of the total pension liability is disclosed on page 76.

NOTE C - SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

1. Ten year trend

GASB 68 requires information for 10 years. However, until a full 10-year trend is completed, the City is presenting information for only those years for which information is available for the Florida Retirement System (FRS) and the Health Insurance Supplement (HIS) plans.

2. Fiduciary net position

The FRS and HIS plans' fiduciary net position as a percentage of the total pension liability is published in the FRS Comprehensive Annual Financial Report (See Note I for reference to FRS CAFR information).

NOTE D - SCHEDULE OF CONTRIBUTIONS

1. Ten year trend

GASB 68 requires information for 10 years. However, until a full 10-year trend is completed, the City is presenting information for only those years for which information is available for the Municipal Police Officers' Retirement Fund (MPORF), Police Officers' Supplemental Pension (POSPP), Florida Retirement System (FRS) and the Health Insurance Supplement (HIS) plans.

**SUPPLEMENTAL COMBINING FUND
FINANCIAL STATEMENTS**

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor governmental funds are special revenue funds which are used to account for specific revenues that are legally restricted to expenditures for particular purposes and are funds that were not deemed a major fund by GASB 34 standards.

Impound Fund is used to account for revenues obtained by the City through seizure of money and property, related to illegal activities that are legally restricted for police expenditures.

Police Training Fund is used to account for revenues received by the City that are legally restricted for police training expenditures.

Stormwater Utility Fund is used to account for revenues received by the City that are legally restricted for drainage expenditures.

City of Indian Harbour Beach, Florida

NONMAJOR GOVERNMENTAL FUNDS -
COMBINING BALANCE SHEET

September 30, 2018

| | <u>Impound Fund</u> | <u>Police Training Fund</u> | <u>Stormwater Utility Fund</u> | <u>Total Other Governmental Funds</u> |
|-------------------------|---------------------|---------------------------------|------------------------------------|---|
| ASSETS | | | | |
| Cash | \$ 21,831 | \$ 257 | \$ 236,215 | \$ 258,303 |
| Receivables | - | 23 | 4 | 27 |
| Total assets | <u>\$ 21,831</u> | <u>\$ 280</u> | <u>\$ 236,219</u> | <u>\$ 258,330</u> |
| FUND BALANCE | | | | |
| Restricted fund balance | <u>\$ 21,831</u> | <u>\$ 280</u> | <u>\$ 236,219</u> | <u>\$ 258,330</u> |

See Independent Auditor's Report.

City of Indian Harbour Beach, Florida

**NONMAJOR GOVERNMENTAL FUNDS -
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

Year ended September 30, 2018

| | <u>Impound Fund</u> | <u>Police Training Fund</u> | <u>Stormwater Utility Fund</u> | <u>Total Other Governmental Funds</u> |
|---------------------------------------|---------------------|---------------------------------|------------------------------------|---|
| REVENUES | | | | |
| Permits, fees and special assessments | \$ - | \$ - | \$ 217,953 | \$ 217,953 |
| Judgments, fines and forfeits | - | 444 | - | 444 |
| Interest and other earnings | 9 | - | 352 | 361 |
| Total revenues | <u>9</u> | <u>444</u> | <u>218,305</u> | <u>218,758</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | 2,237 | 187 | - | 2,424 |
| Capital outlay | - | - | 148,943 | 148,943 |
| Total expenditures | <u>2,237</u> | <u>187</u> | <u>148,943</u> | <u>151,367</u> |
| Net change in fund balances | (2,228) | 257 | 69,362 | 67,391 |
| Fund balances at October 1, 2017 | <u>24,059</u> | <u>23</u> | <u>166,857</u> | <u>190,939</u> |
| Fund balances at September 30, 2018 | <u>\$ 21,831</u> | <u>\$ 280</u> | <u>\$ 236,219</u> | <u>\$ 258,330</u> |

See Independent Auditor's Report.

City of Indian Harbour Beach, Florida

**NONMAJOR GOVERNMENTAL FUNDS -
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

Year ended September 30, 2018

| | Final Budget | Actual | Variance with Final Budget |
|---------------------------------------|--------------------------|--------------------------|-------------------------------|
| REVENUES | | | |
| Permits, fees and special assessments | \$ 217,949 | \$ 217,953 | \$ 4 |
| Judgments, fines and forfeits | 402 | 444 | 42 |
| Interest and other earnings | 351 | 361 | 10 |
| Miscellaneous | 2,219 | - | (2,219) |
| Total revenues | <u>220,921</u> | <u>218,758</u> | <u>(2,163)</u> |
| EXPENDITURES | | | |
| Current | | | |
| Public safety | 2,631 | 2,424 | 207 |
| Capital outlay | 218,290 | 148,943 | 69,347 |
| Total expenditures | <u>220,921</u> | <u>151,367</u> | <u>69,554</u> |
| Net change in fund balances | - | 67,391 | 67,391 |
| Fund balances at October 1, 2017 | <u>190,939</u> | <u>190,939</u> | - |
| Fund balances at September 30, 2018 | <u><u>\$ 190,939</u></u> | <u><u>\$ 258,330</u></u> | <u><u>\$ 67,391</u></u> |

See Independent Auditor's Report.

CITY OF INDIAN HARBOUR BEACH, FLORIDA

**INDEPENDENT AUDITOR'S 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***



MANAGEMENT LETTER



INDEPENDENT ACCOUNTANT'S REPORT ON INVESTMENT COMPLIANCE

September 30, 2018

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

Honorable Mayor and City Council
City of Indian Harbour Beach
Indian Harbour Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the City of Indian Harbour Beach, Florida (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 23, 2019
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

Honorable Mayor and City Council
City of Indian Harbour Beach, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Indian Harbour Beach, Florida (the "City"), as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated April 23, 2019.

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 Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent 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 April 23, 2019, 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. There were no findings and associated recommendations made in the preceding annual financial audit report.

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 name or official title and legal authority are disclosed in Note A-1 to the financial statements.

Financial Condition and Management

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

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

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Special District Component Units

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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

April 23, 2019
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

INDEPENDENT ACCOUNTANT'S REPORT ON INVESTMENT COMPLIANCE

To the Honorable Mayor and City Council
City of Indian Harbour Beach
Indian Harbour Beach, Florida

We have examined the City of Indian Harbour Beach's (the "City") compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2018. Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements 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, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, 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.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with Section 218.415, Florida Statutes, during the year ended September 30, 2018.

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

April 23, 2019
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP