

**TOWN OF HILLSBORO BEACH, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016**

**TOWN OF HILLSBORO BEACH, FLORIDA
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INDEPENDENT AUDITOR'S REPORT

To the Town Commission
Town of Hillsboro Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Hillsboro Beach, Florida (the "Town") as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of net pension liability, schedules of pension contributions, and schedules of employer contributions and funding progress 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated June 29, 2017, on our consideration of the Town's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

June 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Hillsboro Beach, Florida ("Town") would like to offer the readers of the Town's financial statements this discussion and analysis of the financial activities of the Town's financial statements for the fiscal year ended September 30, 2016. Please read it in conjunction with the Town's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2016, resulting in a net position balance of \$6,820,497.
- The Town's net position decreased by (\$338,233) in comparison with the prior year. The key components of the Town's net position and change in net position are reflected in the table in the government-wide financial analysis section.
- At September 30, 2016, the Town's governmental fund reported a total ending fund balance of \$5,033,516, a decrease of (\$305,276) in comparison with the prior year. Of the total fund balance, \$54,471 is non-spendable for prepaid items; \$366,451 is restricted for capital projects, \$4,192 is assigned related to forfeitures and seizures, \$54,041 is assigned to reserves-beach restoration, \$150,000 to subsequent years expenditures, and \$4,404,361 is unassigned fund balance which is available for spending at the Town's discretion.
- During fiscal year 2016, the Town implemented Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) Government-wide Financial Statements

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

The statement of net position presents information on all the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual amount being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

1) Government-wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, physical environment, transportation and culture and recreation. The business-type activities of the Town include the water utility operation.

2) Fund Financial Statement

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Town'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 Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains one governmental fund. Information is presented 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 a major fund.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The Town maintains one type of proprietary fund: an enterprise fund. An enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water distribution and plant operations within the Town.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

3) Notes to the Basic 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year.

Key components of the Town's net position are reflected in the following table:

	NET POSITION					
	SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 9,402,061	\$10,087,512	\$ 1,156,424	\$ 898,534	\$ 10,558,485	\$ 10,986,046
Capital assets, net of depreciation	1,337,098	1,395,723	6,003,085	6,317,799	7,340,183	7,713,522
Total assets	10,739,159	11,483,235	7,159,509	7,216,333	17,898,668	18,699,568
Deferred outflows of resources	1,361,999	334,999	61,323	23,391	1,423,322	358,390
Current liabilities	439,303	286,690	69,055	43,592	508,358	330,282
Long-term liabilities	6,898,673	5,956,172	4,876,021	5,041,472	11,774,694	10,997,644
Total liabilities	7,337,976	6,242,862	4,945,076	5,085,064	12,283,052	11,327,926
Deferred inflows of resources	232,597	534,014	(14,156)	37,288	218,441	571,302
Net position						
Net investment in capital assets	1,337,098	1,395,723	1,395,732	1,444,833	2,732,830	2,840,556
Restricted	358,326	357,627	-	-	358,326	357,627
Unrestricted	2,835,161	3,288,008	894,180	672,539	3,729,341	3,960,547
Total net position	\$ 4,530,585	\$ 5,041,358	\$ 2,289,912	\$ 2,117,372	\$ 6,820,497	\$ 7,158,730

A portion of the Town's net position reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Town's net position decreased during the most recent fiscal year. The majority of the decrease represents the extent to which the cost of operations and depreciation expense exceeded ongoing program revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Key elements of the change in the Town's net position are reflected in the following table:

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 399,205	\$ 166,175	\$ 1,566,308	\$ 1,340,663	\$ 1,965,513	\$ 1,506,838
Operating grants and contributions	124,105	779,530	-	-	124,105	779,530
General revenues:						
Property taxes	3,528,514	3,447,545	-	-	3,528,514	3,447,545
Utility and franchise fees	219,854	224,842	-	-	219,854	224,842
Intergovernmental revenue	241,539	937,154	-	-	241,539	937,154
Unrestricted investment earnings	-	-	18,030	5,956	18,030	5,956
Miscellaneous	-	-	62,856	63,334	62,856	63,334
Total revenues	4,513,217	5,555,246	1,647,194	1,409,953	6,160,411	6,965,199
Expenses:						
Governmental activities:						
General government	701,759	621,081	-	-	701,759	621,081
Public safety	3,441,503	2,995,484	-	-	3,441,503	2,995,484
Physical environment	624,565	2,428,842	-	-	624,565	2,428,842
Transportation	87,917	87,883	-	-	87,917	87,883
Culture and recreation	113,229	67,156	-	-	113,229	67,156
Interest expense	105,017	122,430	-	-	105,017	122,430
Capital outlay	-	-	-	-	-	-
Business - type activities:						
Water utilities	-	-	1,424,654	1,261,364	1,424,654	1,261,364
Total expenses	5,073,990	6,322,876	1,424,654	1,261,364	6,498,644	7,584,240
Transfers	50,000	50,000	(50,000)	(50,000)	-	-
Change in net position	(510,773)	(717,630)	172,540	98,589	(338,233)	(619,041)
Net position - beginning	5,041,358	7,947,163	2,117,372	2,171,575	7,158,730	10,118,738
Prior period adjustment (see Note 2)	-	(2,188,175)	-	(152,792)	-	(2,340,967)
Net position - beginning, as restated	5,041,358	5,758,988	2,117,372	2,018,783	7,158,730	7,777,771
Net position - ending	\$ 4,530,585	\$ 5,041,358	\$ 2,289,912	\$ 2,117,372	\$ 6,820,497	\$ 7,158,730

Governmental activities

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2016 was \$5,073,990. These activities were financed through revenues of \$4,513,217 which consist primarily of ad valorem taxes. The decrease in total revenues in fiscal year 2016 is primarily the result of the decrease in grant revenues in the current fiscal year. The decrease in current fiscal year expenses is mainly due to the completion of the beach re-nourishment project in the prior year.

Business-type activities

Business-type activities reflect the operations of the water facilities within the Town. The cost of operations is covered primarily by charges to customers. Water and sewer expenses increase in the current year mainly as a result of an increase in professional services.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the Town pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Commission. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2016.

The overall variance between budgeted and actual general fund revenues for the current fiscal year is the result of non-payments of current fiscal year taxes by some residents. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year relating to public safety.

CAPITAL ASSETS

At September 30, 2016, the Town had \$2,964,665 invested in land, buildings, infrastructure and machinery and equipment, for its governmental activities. In the government-wide financial statements depreciation of \$1,627,567 has been taken, which resulted in a net book value of \$1,337,098 and the Town's business-type activities reported net capital assets of \$6,003,085. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

CAPITAL DEBT

At September 30, 2016, the Town had a \$3,185,813 loan outstanding for its governmental activities. For business-type activities, the Town had a loan outstanding of \$4,607,353. More detailed information about the Town's capital debt is presented in the notes of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town's local economy is primarily services for retirees, while commercial retail and service activity combine for a small segment. A large portion of the Town's residents are seasonal. Consequently, local economic detriments affect the Town to a lesser extent due to the broad natural and worldwide composition of the Town's seasonal resident.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the financial resources it manages and the stewardship of the facilities it maintains.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town's finance department c/o Severn Trent Management Services 210 N. University Drive, Suite 702, Coral Springs, Florida 33071. Telephone 954-753-5841.

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,249,069	\$ 312,606	\$ 1,561,675
Investments	3,663,971	664,289	4,328,260
Accounts receivable, net	62,356	173,879	236,235
Assessments receivable	3,955,492	-	3,955,492
Interest receivable	16	-	16
Intergovernmental receivables	50,235	-	50,235
Prepays	54,471	5,650	60,121
Restricted assets:			
Cash	366,451	-	366,451
Capital assets:			
Nondepreciable	30,000	-	30,000
Depreciable, net	1,307,098	6,003,085	7,310,183
Total assets	<u>10,739,159</u>	<u>7,159,509</u>	<u>17,898,668</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	<u>1,361,999</u>	<u>61,323</u>	<u>1,423,322</u>
LIABILITIES			
Accounts payable	239,243	62,293	301,536
Accrued liabilities	143,928	-	143,928
Accrued interest payable	48,007	6,762	54,769
Customer deposits	8,125	-	8,125
Note payable	599,949	294,268	894,217
Compensated absences	21,757	-	21,757
Due in more than one year:			
Note payable	2,585,864	4,313,085	6,898,949
Compensated absences	319,080	42,694	361,774
Net OPEB obligation	82,000	-	82,000
Net pension liability	3,290,023	225,974	3,515,997
Total liabilities	<u>7,337,976</u>	<u>4,945,076</u>	<u>12,283,052</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	<u>232,597</u>	<u>(14,156)</u>	<u>218,441</u>
NET POSITION			
Net investment in capital assets	1,337,098	1,395,732	2,732,830
Restricted	358,326	-	358,326
Unrestricted	2,835,161	894,180	3,729,341
Total net position	<u>\$ 4,530,585</u>	<u>\$ 2,289,912</u>	<u>\$ 6,820,497</u>

See notes to the financial statements

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

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:						
Governmental activities:						
General government	\$ 701,759	\$ 131,194	\$ -	\$ (570,565)	\$ -	\$ (570,565)
Public safety	3,441,503	-	-	(3,441,503)	-	(3,441,503)
Physical environment	624,565	69,173	124,105	(431,287)	-	(431,287)
Transportation	87,917	-	-	(87,917)	-	(87,917)
Building and engineering	113,229	-	-	(113,229)	-	(113,229)
Interest	105,017	198,838	-	93,821	-	93,821
Total governmental activities	5,073,990	399,205	124,105	(4,550,680)	-	(4,550,680)
Business-type activities:						
Water utilities	1,424,654	1,566,308	-	-	141,654	141,654
Total business-type activities	1,424,654	1,566,308	-	-	141,654	141,654
Total	6,498,644	1,965,513	124,105	(4,550,680)	141,654	(4,409,026)
General revenues:						
Property taxes				3,528,514	-	3,528,514
Utility and franchise fees				219,854	-	219,854
Intergovernmental revenue				241,539	-	241,539
Unrestricted investment earnings				-	18,030	18,030
Miscellaneous				-	62,856	62,856
Transfers in (out)				50,000	(50,000)	-
Total general revenues and transfers				4,039,907	30,886	4,070,793
Change in net position				(510,773)	172,540	(338,233)
Net position - beginning				5,041,358	2,117,372	7,158,730
Net position - ending				\$ 4,530,585	\$ 2,289,912	\$ 6,820,497

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2016**

	<u>Major Fund</u>	<u>Total</u>
	General	Governmental Funds
ASSETS		
Cash	\$ 1,249,069	\$ 1,249,069
Investments	3,663,971	3,663,971
Interest receivable	16	16
Accounts receivable, net	62,356	62,356
Assessments receivable	3,955,492	3,955,492
Intergovernmental receivable	50,235	50,235
Prepays	54,471	54,471
Cash-restricted	366,451	366,451
Total assets	<u>\$ 9,402,061</u>	<u>\$ 9,402,061</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 239,243	\$ 239,243
Accrued liabilities	165,685	165,685
Customer deposits	8,125	8,125
Total liabilities	<u>413,053</u>	<u>413,053</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - special assessments	<u>3,955,492</u>	<u>3,955,492</u>
Total deferred inflows of resources	<u>3,955,492</u>	<u>3,955,492</u>
Fund balance:		
Nonspendable:		
Prepaid items	54,471	54,471
Restricted:		
Capital projects	366,451	366,451
Assigned:		
Forfeitures and seizures	4,192	4,192
Reserves - beach restoration	54,041	54,041
Subsequent years expenditures	150,000	150,000
Unassigned	<u>4,404,361</u>	<u>4,404,361</u>
Total fund balance	<u>5,033,516</u>	<u>5,033,516</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,402,061</u>	<u>\$ 9,402,061</u>

See notes to the financial statements

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

Fund balance - governmental funds \$ 5,033,516

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.

Cost of capital assets	2,964,665	
Accumulated depreciation	<u>(1,627,567)</u>	1,337,098

Assets recorded in the governmental fund financial statements that are not available to pay for current-period expenditures are unavailable revenue in the governmental funds. 3,955,492

Deferred outflows of resources related to pensions are recorded in the statement of net position. 1,361,999

Deferred inflows of resources related to pensions are recorded in the statement of net position. (232,597)

Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund financial statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.

Net OPEB obligation		(82,000)
Net pension liability		(3,290,023)
Interest payable		(48,007)
Note payable		(3,185,813)
Compensated absences due in more than one year		<u>(319,080)</u>

Net position of governmental activities \$ 4,530,585

See notes to the financial statements

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

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
	<u>Funds</u>	<u>Funds</u>
REVENUES		
Property taxes	\$ 3,528,514	\$ 3,528,514
Special assessments	745,529	745,529
Licenses and permits	131,194	131,194
Utility and franchise fees	219,854	219,854
Intergovernmental	241,539	241,539
Grant revenue	71,196	71,196
Interest	52,909	52,909
Miscellaneous	69,173	69,173
Total revenues	<u>5,059,908</u>	<u>5,059,908</u>
EXPENDITURES		
Current:		
General government	673,401	673,401
Public safety	3,181,213	3,181,213
Physical environment	622,903	622,903
Transportation	87,917	87,917
Building and engineering	113,229	113,229
Debt service:		
Principal payment	581,942	581,942
Interest expense	114,020	114,020
Capital outlay	40,559	40,559
Total expenditures	<u>5,415,184</u>	<u>5,415,184</u>
Excess (deficiency) of revenues over (under) expenditures	(355,276)	(355,276)
OTHER FINANCING SOURCES (USES)		
Transfer in from other fund	50,000	50,000
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>
Net change in fund balances	(305,276)	(305,276)
Fund balance - beginning	<u>5,338,792</u>	<u>5,338,792</u>
Fund balance - ending	<u>\$ 5,033,516</u>	<u>\$ 5,033,516</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balance - total governmental funds	\$ (305,276)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is eliminated and are capitalized and reported as capital assets in the statement of net position.	46,559
Certain revenues were unearned for the fund financial statements in the prior fiscal year. In the current fiscal year, these revenues were recorded in the governmental fund financial statements.	(546,691)
Repayment of long-term liabilities are reported as expenditures in the governmental fund financial statement but such repayments reduce liabilities in the statement of net position and are eliminated in the statement of activities.	581,942
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(105,184)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The details of the differences are as follows:	
Pension expense	(147,049)
Change in compensated absence	(34,077)
Change in other post employment benefit obligation	(10,000)
Change in accrued interest	9,003
Change in net position of governmental activities	\$ (510,773)

See notes to the financial statements

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET POSITION - PROPRIETARY FUND
SEPTEMBER 30, 2016

	Enterprise Fund
	Water Utility
ASSETS	
Current assets:	
Cash	\$ 312,606
Investments	664,289
Accounts receivable, net	173,879
Prepaid expenses	5,650
Total current assets	1,156,424
Noncurrent assets:	
Capital assets:	
Buildings	1,994,315
Distribution system	5,003,316
Plant improvements	608,583
Infrastructure	102,068
Meters	388,983
Vehicles	68,019
Machinery and equipment	110,674
Less accumulated depreciation	(2,272,873)
Total capital assets, net	6,003,085
Total assets	7,159,509
DEFERRED OUTFLOWS OF RESOURCES	
Pension	61,323
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	62,293
Accrued interest payable	6,762
Current portion of loan payable	294,268
Total current liabilities	363,323
Noncurrent liabilities:	
Loan payable	4,313,085
Compensated absences	42,694
Net pension liability	225,974
Total noncurrent liabilities	4,581,753
Total liabilities	4,945,076
DEFERRED INFLOWS OF RESOURCES	
Pension	(14,156)
NET POSITION	
Net investment in capital assets	1,395,732
Unrestricted	894,180
Total net position	\$ 2,289,912

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	Enterprise Fund <u>Water Utility</u>
OPERATING REVENUES	
Charges for services	\$ 1,566,308
Total operating revenues	<u>1,566,308</u>
OPERATING EXPENSES	
Salaries and benefits	422,088
Operating	426,036
Repairs and maintenance	109,533
Depreciation and amortization	350,414
Total operating expense	<u>1,308,071</u>
Operating income	<u>258,237</u>
NON OPERATING REVENUES (EXPENSES)	
Interest revenue	18,030
Interest expense	(116,583)
Miscellaneous revenue	62,856
Total non operating revenue (expenses)	<u>(35,697)</u>
Income before transfers	222,540
Transfers (out)	<u>(50,000)</u>
Change in net position	172,540
Net position - beginning	<u>2,117,372</u>
Net position - ending	<u>\$ 2,289,912</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	Enterprise Fund <u>Water Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,562,265
Payments to employees	(411,302)
Payments to suppliers of goods and services	(513,307)
Net cash provided (used) by operating activities	<u>637,656</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous revenue	62,856
Transfer out	(50,000)
Net cash provided (used) by noncapital financing activities	<u>12,856</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(35,700)
Proceeds from long term debt	21,800
Principal paid	(287,413)
Interest paid	(116,583)
Net cash provided (used) by capital and related financing activities	<u>(417,896)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	18,030
Proceeds from sales and maturities of investments	(297,998)
Net cash provided (used) by investing activities	<u>(279,968)</u>
Net increase (decrease) in cash and cash equivalents	(47,352)
Cash and cash equivalents - October 1	<u>359,958</u>
Cash and cash equivalents - September 30	<u>\$ 312,606</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 258,237
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	350,414
FRS/HIS pension expense	9,894
(Increase) decrease in accounts receivable	(4,043)
(Increase) decrease in prepaids	(3,201)
Increase (decrease) in accounts payable	25,463
Increase (decrease) in compensated absences	892
Total adjustments	<u>379,419</u>
Net cash provided (used) by operating activities	<u>\$ 637,656</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

The Town of Hillsboro Beach, Florida (the “Town”) was incorporated in 1939, under the provisions of the State of Florida. The Town is governed by a Mayor, Vice Mayor, and Town Commission which appoints a Town Manager. The Town provides the following services to its residents: public safety, sanitation, road and street facilities, parks, planning and zoning, general administrative services, and water utility. The Town Commission, (Commission) is responsible for legislative and fiscal control of the Town.

The financial statements were prepared in accordance with Governmental Accounting Standards Board (“GASB”) Statements. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the Town is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that, if excluded, the financial statements of the Town would be considered incomplete or misleading. There are no entities considered to be component units of the Town; therefore, the financial statements include only the operations of the Town.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property Taxes

Property taxes are ad valorem and levied each November 1 on property as of the previous January 1. The Broward County, Florida Tax Collector's Office bills and collects ad valorem taxes on behalf of the Town. The ad valorem tax rate for fiscal year ended September 30, 2015 was \$3.39 per \$1,000 of assessed taxable property value. Ad valorem taxes are due for payment on March 31 and become delinquent April 1. Tax certificates are sold to satisfy liens on delinquent assessments in July. Property taxes relating to the current budget and collected within 60 days after the year end of the budget period are recognized as revenue.

In the governmental fund, property taxes, assessments franchise fees, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of receivables due within the current fiscal period is considered to be susceptible to accrual as revenue for the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town. In the government-wide financial statements property taxes are recorded when assessed and levied.

Special Assessments and Assessments Receivable

Special assessments are non-ad valorem assessments on certain benefited property within the Town. Special assessments were levied over ten years to pay for the debt service related to the Beach Restoration Project at the time the debt was authorized. Assessments receivable recorded in the General Fund represent the balance of outstanding assessments levied by the Town to repay the outstanding debt. Assessments receivable are collected in annual installments together with assessments for interest and collection costs in amounts sufficient to meet the annual debt service requirements. The annual installments are due for payment on March 31 and become delinquent April 1. Tax certificates are sold to satisfy liens on delinquent assessments in July. Special assessments relating to the current budget and collected within 60 days after the year end of the budget period are recognized as revenue in the General fund.

The Town reports unavailable revenue in the fund financial statements in an amount equal to the assessments receivable since this revenue will be collected in future years. In the government-wide financial statements the assessment revenue is recognized at the time the assessments are levied.

The Town reports the following major governmental fund:

General Fund

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

The Town reports the following major proprietary fund:

Water Fund

This enterprise fund is used to account for the operations of the water utility services within the Town. The costs of providing services to the residents are recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town's various utility functions and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

New Accounting Standards Adopted

During fiscal year 2016, the Town adopted three new accounting standards as follows:

GASB 72, Fair Value Measurement and Application

The Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature.

GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The Statement identifies—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles.

GASB 79 - Certain External Investment Pools and Pool Participants

This Statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

Assets, Liabilities and Net Position or Equity

Restricted Assets

These assets represent cash and investments set aside pursuant to debt covenants or other contractual restrictions.

Deposits and Investments

The Town considers cash on hand, demand deposits, and all other short-term investments that are highly liquid as cash equivalents. Highly liquid short-term investments are those readily convertible to a known amount of cash, and at the day of purchase, have a maturity date no longer than three months.

The Town has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The Town may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Equity (Continued)

Deposits and Investments (Continued)

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due. In addition, surplus may be deposited into certificates of deposit which are insured.

The Town records all interest revenue related to investment activities in the respective funds. Investments are measured at amortized cost or reported at fair value as required by generally accepted accounting principles.

Prepaid Items

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

Receivables and Payables

During the course of operations, transactions occur between individual funds. Any residual balances outstanding between governmental activities and business-type activities for internal borrowing are reported in the government-wide financial statements as "internal balances".

Accounts and property tax receivables are shown net of an allowance for uncollectible balances. These receivables will be recognized as revenue if they are collected within 60 days of the year end, otherwise they will be deferred at the fund level.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an estimated useful life in excess of one year and a cost greater than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Distribution system, plant improvements, and infrastructure	3-30
Meters, Vehicles, Machinery and equipment	3-10
Improvements other than building	5-10

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Equity (Continued)

Compensated Absences

Sick and vacation time is granted to employees of the Town for use of vacation, illness or other personal business. Accumulated unpaid personal time off is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. A liability for accrued compensated absences of the governmental activities that have not matured is not reported in the balance sheet of the governmental funds and, accordingly, represents a reconciling item between the fund and government-wide presentations. Payments are generally paid out of the general fund.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s). For example, the Town would record deferred outflows of resources on the statement of net position related to debit amounts resulting from current and advance refundings resulting in the defeasance of debt (i.e. when there are differences between the reacquisition price and the net carrying amount of the old debt).

Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s). For example, when an asset is recorded in the governmental fund financial statements, but the revenue is unavailable, the Town reports a deferred inflow of resources on the balance sheet until such times as the revenue becomes available.

Fund Equity/Net Position

In the fund financial statements, governmental funds report non spendable and restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

The Town can establish limitations on the use of fund balance as follows:

Committed fund balance – Amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Town Commission. Commitments may be changed or lifted only by the Town Commission taking the same formal action (resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned fund balance – Includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The Town Commission may also assign fund balance as it does when appropriating fund balance to cover differences in estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally temporary and normally the same formal action need not be taken to remove the assignment.

The Town first uses 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 the unrestricted fund balance classifications could be used.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position or Equity (Continued)

Fund Equity/Net Position (Continued)

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the Town's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

Other Disclosures

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – BUDGETARY INFORMATION

The Town is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year-end.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the Town Manager submits to the Town Commission a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the Town Commission.
- d) All budget changes must be approved by the Town Commission.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The Town's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Town's investments were held as follows at September 30, 2016:

Investment	Amortized cost	Fair Value	Level	Credit Rating	Maturities
Certificates of Deposits	\$ 1,009,698	-	N/A	Not rated	11/4/2016 - 11/04/2017
	<u>1,009,698</u>				
Corporate Bonds		790,144	2	AA- to AAA	12/5/2017 - 6/3/2019
Municipal Bonds		797,196	2	AA to AA+	10/1/2016 - 12/1/2018
US Treasuries		254,579	2	Not rated	4/30/2018 - 4/15/2019
Federal National Mortgage Association		449,829	2	AA+	12/20/2017 - 8/24/2021
Federal Home Loan Mortgage Corp		653,014	2	AA+	12/19/2017 - 12/9/2022
Federal Farm Credit Bank		375,494	2	AA+	12/18/2017 - 11/9/2018
		<u>3,320,256</u>			
Total Investments	<u>\$ 1,009,698</u>	<u>\$ 3,320,256</u>			

Credit risk – For investments, credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investment ratings by investment type are included in the preceding summary of investments.

Concentration risk – The Town places no limit on the amount the Town may invest in any one issuer.

Interest rate risk – The Town does not have a formal policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Fair Value Measurement – When applicable, the Town measures and records its investments using fair value measurement guidelines established in accordance with GASB Statements. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques.

These guidelines recognize a three-tiered fair value hierarchy, in order of highest priority, as follows:

- *Level 1:* Investments whose values are based on unadjusted quoted prices for identical investments in active markets that the Town has the ability to access;
- *Level 2:* Investments whose inputs - other than quoted market prices - are observable either directly or indirectly; and,
- *Level 3:* Investments whose inputs are unobservable.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the entire fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Fixed income – Some of the underlying securities have observable level 1 quoted pricing inputs. However, while the underlying asset values may be based on quoted market prices, the net asset value of the portfolios is not publicly quoted. Additionally, some of the underlying securities employ matrix pricing. Accordingly, these investments have been reported as level 2.

Non-negotiable, non-transferrable certificates of deposits that do not consider market rates are required to be measured at amortized cost, as such, these investments have been reported at amortized cost above.

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2016 were as follows:

Fund	Transfers in	Transfers out
General	\$ 50,000	\$ -
Water	-	50,000
Total	\$ 50,000	\$ 50,000

Transfers are used to move revenues from the fund where collection occurs to the fund where funds have been reallocated for use. In the case of the Town, transfers from the enterprise fund to the general fund were in accordance with the current fiscal year budget.

NOTE 6 – RECEIVABLES

Receivables at September 30, 2016, for the Town’s major fund accounts are as follows:

	General	Water	Total
State of Florida	\$ 15,594	\$ -	\$ 15,594
Franchise fee	61,997	-	61,997
Broward County	24,181	-	24,181
Other receivables	36,907	22,311	59,218
Customer accounts receivable	-	179,517	179,517
Gross accounts receivable	138,679	201,828	340,507
Less: Allowance for uncollectible accounts	(26,072)	(27,949)	(54,021)
Accounts receivable, net	\$ 112,607	\$ 173,879	\$ 286,486

NOTE 7 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	30,000	-	-	30,000
Capital assets, being depreciated				
Buildings	1,811,823	-	-	1,811,823
Machinery and equipment	951,469	43,009	(46,097)	948,381
Improvements other than buildings	174,461	3,550	(3,550)	174,461
Total capital assets, being depreciated	2,937,753	46,559	(49,647)	2,934,665
Less accumulated depreciation for:				
Buildings	(586,074)	(35,086)	-	(621,160)
Machinery and equipment	(867,374)	(53,192)	46,097	(874,469)
Improvements other than buildings	(118,582)	(16,906)	3,550	(131,938)
Total accumulated depreciation	(1,572,030)	(105,184)	49,647	(1,627,567)
Total capital assets, being depreciated, net	1,365,723	(58,625)	-	1,307,098
Governmental activities capital assets, net	\$ 1,395,723	\$ (58,625)	\$ -	\$ 1,337,098

Depreciation expense was charged to the following function/programs as follows:

General government	\$ 16,829
Public safety	88,355
	\$ 105,184

NOTE 7 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the business-type activities for the fiscal year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Business-type Activities</u>				
Capital assets, being depreciated				
Buildings	\$ 1,994,315	\$ -	\$ -	\$ 1,994,315
Distribution system	5,003,316	-	-	5,003,316
Plant improvements	572,883	35,700	-	608,583
Infrastructure	102,068	-	-	102,068
Meters	388,983	-	-	388,983
Vehicles	68,019	-	-	68,019
Machinery and equipment	110,674	-	-	110,674
Total capital assets, being depreciated	8,240,258	35,700	-	8,275,958
Less accumulated depreciation for:				
Buildings	(336,255)	(99,716)	-	(435,971)
Distribution system, plant improvements, and infrastructure	(1,064,804)	(210,248)	-	(1,275,052)
Meters, Vehicles, Machinery & Equipment	(521,400)	(40,450)	-	(561,850)
Total accumulated depreciation	(1,922,459)	(350,414)	-	(2,272,873)
Total capital assets, being depreciated, net	6,317,799	(314,714)	-	6,003,085
Business-type activities capital assets, net	\$ 6,317,799	\$ (314,714)	\$ -	\$ 6,003,085

NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Governmental activities</u>					
Beach note	\$ 3,767,755	\$ -	\$ (581,942)	\$ 3,185,813	\$ 599,949
Compensated absences	301,860	164,674	(125,697)	340,837	21,757
	\$ 4,069,615	\$ 164,674	\$ (707,639)	\$ 3,526,650	\$ 621,706
<u>Business-type activities</u>					
Water plant loan ("SRF")	\$ 4,872,966	\$ 21,800	\$ (287,413)	\$ 4,607,353	\$ 294,268
Compensated absences	41,802	26,017	(25,125)	42,694	-
	\$ 4,914,768	\$ 47,817	\$ (312,538)	\$ 4,650,047	\$ 294,268

Beach Renourishment Promissory Note

On January 19, 2011, the Town entered into a promissory note agreement with a bank in the amount of \$5,896,567 with interest payable at 3.02%. The note is repayable over a 10 year period and will be funded through non-ad valorem special assessments levied upon those lots that directly benefit from the project. The purpose of the debt is to provide capital expenditures related to the renourishment to the beachfront areas of the Town. The Town will make equal annual payments of principal and interest in the amount of \$695,962 due on April 1, 2012 and on the first day of April thereafter, and is payable in full on April 1, 2021. The loan is secured by the pledged revenues received by the Town from the imposition and collection of the special assessments.

NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)

Beach Renourishment Promissory Note (Continued)

At September 30, 2016, the scheduled debt service requirements on the beach renourishment promissory note were as follows:

	Principal	Interest	Total
2017	\$ 599,949	\$ 96,013	\$ 695,962
2018	617,859	78,103	695,962
2019	636,518	59,444	695,962
2020	655,740	40,214	695,954
2021	675,747	20,410	696,157
Total	\$ 3,185,813	\$ 294,184	\$ 3,479,997

Water Plant Loan Agreement “SRF”

In fiscal year 2012 the Town entered into a state revolving funds loan with the Florida Department of Environmental Protection to provide financing for the water plant construction. The loan is a pass through federal grant from the Environmental Protection Agency. The disbursable funds under the loan were originally \$5,532,317. Interest payable on the original funding amount is 2.42% per annum. The amount of disbursable funds was increased in fiscal year 2013 by \$638,099. During the year fiscal year ended September 30, 2014, the Town received an additional loan disbursement in the amount of \$2,233,322. In the current fiscal year, the Town received an additional disbursement of \$21,800. Interest payable on the additional funding amount is 2% per annum. Loan payments are due beginning on March 15, 2014 and semiannually thereafter on September 15 and March 15 of each year until all amounts due have been fully paid. Each semiannual loan payment shall be in the amount of \$201,998 until the agreement is amended for the final loan amount. The loan is secured by the pledged revenues of the water fund which are defined as the gross revenues minus the operating expenses and the satisfaction of all yearly payment obligations on account of any senior obligations. The Town is also subjected to certain covenants and is mandated to establish water rates going forward so that each fiscal year they will provide pledged revenues which are at least 115% of the principal and interest coming due on the note in such fiscal year. As of September 30, 2016, the Town owes \$4,607,353 on this loan.

At September 30, 2016, the scheduled debt service requirements on water plant loan “SRF” were as follows:

	Principal	Interest	Total
2017	\$ 294,268	\$ 109,728	\$ 403,996
2018	301,432	102,564	403,996
2019	308,771	95,225	403,996
2020	316,288	87,708	403,996
2021	323,989	80,007	403,996
2022-2026	1,742,175	277,805	2,019,980
2027-2030	1,320,430	63,608	1,384,038
Total	\$ 4,607,353	\$ 816,645	\$ 5,423,998

NOTE 9 – RETIREMENT PLAN

Florida Retirement System (FRS)

General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any state-administered retirement system in paying the costs of health insurance.

All regular employees of the Town are eligible to enroll as members of the FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' website (www.dms.myflorida.com).

The Town's pension expense totaled \$132,732 for the fiscal year ended September 30, 2016.

FRS Pension Plan

Plan Description – The FRS Pension Plan (Plan) is a cost-sharing, multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The classes of membership within the Town are as follows:

- Regular Class – Member of the FRS who do not qualify for membership in another class.
- Special Risk – Members of the FRS who are police officers

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

Benefits Provided – Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation (AFC). For members initially enrolled before July 1, 2011, the AFC is the average of the five highest fiscal years’ earnings; for members initially enrolled on or after July 1, 2011, the AFC is the average of the eight highest fiscal years’ earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors’ benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 66 or with 33 years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 30 years of service	1.60
Retirement at age 66 or with 31 years of service	1.63
Retirement at age 67 or with 32 years of service	1.65
Retirement at age 68 or with 33 years of service	1.68
Special Risk Class	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

Per Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% 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 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions – The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u> <u>October 1, 2015 to June 30, 2016</u>		<u>Percent of Gross Salary</u> <u>July 1, 2016 to September 30, 2016</u>	
	<u>Employee</u>	<u>Employer (1)</u>	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26	3.00	7.52
FRS, Special Risk	3.00	22.04	3.00	22.57

(1) Employer rates include a postemployment HIS contribution rate of 1.66% through June 30, 2016 and 1.66% from July 1 to September 30, 2016. Also, employer rates include .04% for administrative costs of the Investment plan through June 30, 2016 and .06% from July 1 to September 30, 2016.

The Town’s contributions to the Plan totaled \$260,082 for the fiscal year ended September 30, 2016. This excludes the HIS defined benefit pension plan contributions.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the Town reported a liability of \$2,820,917 for its proportionate share of the Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Town’s proportionate share of the net pension liability was based on the Town’s contributions for the year ended June 30, 2016 relative to the contributions made during the year ended June 30, 2015 of all participating members. At June 30, 2016, the Town’s proportionate share was .0112%, which is not significantly different from its proportionate share measured as of June 30, 2015. For the fiscal year ended September 30, 2016. The Town recognized pension expense of \$137,732 related to the Pension Plan. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 215,991	\$ (26,265)
Change of assumptions	170,657	-
Net difference between projected and actual earnings on FRS pension plan investments	729,172	-
Changes in proportion and differences between Town FRS contributions and proportionate share of FRS contributions	118,398	(165,806)
Town FRS contributions subsequent to the measurement date	68,051	-
Total	<u>\$ 1,302,269</u>	<u>\$ (192,071)</u>

The deferred outflows of resources related to pensions, totaling \$68,501, resulting from Town 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2017	\$ 143,551
2018	143,551
2019	415,458
2020	284,336
2021	41,822
Thereafter	13,430
Total	<u>\$ 1,042,148</u>

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
Investment rate of return	7.60%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale AA.

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.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

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)	Arithmetic Return	(Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed income	18.0%	4.7%	4.6%	4.6%
Global equity	53.0%	8.1%	6.8%	17.2%
Real estate (property)	10.0%	6.4%	5.8%	12.0%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	11.1%
Total	100.0%			
Assumed inflation - mean		2.6%		1.9%

(1) As outlined in the Plan’s investment policy

Discount Rate – The discount rate used to measure the total pension liability was 7.60 percent. The Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Town’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Town’s proportionate share of net pension liability	\$ 5,193,494	\$ 2,820,914	\$ 846,055

Pension Plan Fiduciary Net Position – Detailed information about the Plan’s fiduciary net position is available in the FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description – The HIS Pension Plan (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 Division of Retirement within the Florida Department of Management Services.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

HIS Pension Plan (Continued)

Benefits Provided – For the fiscal year ended September 30, 2016, 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, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions – 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, 2016, the contribution rate was 1.66% of payroll from October 1, 2015 through September 30, 2016 pursuant to section 112.363, Florida Statutes. The Town contributed 100 percent 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 the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The Town's contributions to the HIS Plan totaled \$27,626 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the Town reported a net pension liability of \$695,083 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Town's proportionate share of the net pension liability was based on the year ended June 30, 2016 contributions relative to the year ended June 30, 2015 contributions of all participating members. At June 30, 2016, the Town's proportionate share was .0060%, which did not significantly change compared to its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$24,213 related to the HIS Plan. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (1,583)
Change of assumptions	109,076	-
Net difference between projected and actual earnings on HIS plan investments	351	-
Changes in proportion and differences between Town HIS contributions and proportionate share of HIS contributions	4,560	(24,787)
Town HIS contributions subsequent to the measurement date	7,066	-
Total	<u>\$ 121,053</u>	<u>\$ (26,370)</u>

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

HIS Pension Plan (continued)

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 pensions, totaling \$7,066, resulting from Town 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2017	\$ 15,689
2018	15,689
2019	15,635
2020	15,609
2021	13,505
Thereafter	11,491
Total	\$ 87,618

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
Investment rate of return	2.85%

Mortality rates were based on the Generational RP-2000 with Projected Scale BB. 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, 2009, through June 30, 2014.

Discount Rate – The discount rate used to measure the total pension liability was 2.85%. 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.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 2.85%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85%) or 1-percentage-point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Town's proportionate share of net pension liability	\$ 797,418	\$ 695,083	\$ 610,150

Pension Plan Fiduciary Net Position – Detailed information about the HIS Plan's fiduciary net position is available in the FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Florida Retirement System (FRS) (Continued)

FRS – Defined Contribution Pension Plan

The Town contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan, for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Service retirement benefits are based upon the value of the member's account upon retirement.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. Town employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected Local Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices.

Allocations to the investment member's accounts during the 2016 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30%
FRS, Special Risk	14.00%

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll from July 1, 2015 to June 30, 2016 and .06% from July 1, 2016 to September 30, 2016 and by forfeited benefits of Investment Plan members.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The Town's Investment Plan pension expense totaled \$26,673 for the fiscal year ended September 30, 2016.

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Pursuant to Section 112.0801, Florida Statutes, the Town is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. A "retiree" is defined under Section 112.0801 as any officer or employee who retires under a state retirement system or a state optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. Retirees pay 100% of the blended (active and retiree combined) equivalent premium rates. The blended rates provided an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The plan is a single employer plan. The Town currently provides a stipend of \$125 to 5 retirees towards the costs of their healthcare. This stipend will cease if the former employees become re-employed again. The plan does not issue separate financial statements.

Based on GASB Statement 45 which sets forth the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits ("OPEB"), the Town had an actuary calculate future funding requirements during fiscal year 2014. The actuary's estimate, using the projected unit credit cost method, included other actuarial assumptions as classified below. The Town elected to implement the provisions of GASB 45 prospectively. The Town has elected to use the alternative measurement method under GASB 45 since it has fewer than 100 plan members.

As of September 30, 2014, employee membership data related to the Plan was as follows:

Current retirees:	
Under age 65	3
Over age 65	0
Total current retirees	<u>3</u>
Active employees:	
Active employees fully eligible for benefits	4
Active employees not yet fully eligible for benefits	20
Total active employees	<u>24</u>
Total number of participants	<u><u>27</u></u>

Actuarial Methods and Assumptions

The actuarial valuation of the calculation of OPEB involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress immediately following the notes is designed to provide multi-year trend information to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, the Town has not contributed assets to the plan at this time and has elected to fund the plan on a pay-as-you go method.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Significant methods and assumptions were as follows:

Actuarial valuation date	10/1/2015
Actuarial cost method	Projected unit credit
Amortization method	10-year open period; Level-dollar payment
Actuarial assumptions:	
Investment rate of return	4% per annum*
Healthcare cost trend rate(s):	
	<u>Insurance premiums</u>
Select rates	8% for 2015/2016 graded to 5.50% for 2020/21
Ultimate rates	5% per annum

* Includes inflation at 2.75% per annum

Annual OPEB Cost

The annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The annual OPEB cost for the Town for the current year and the related information is as follows:

Required contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Annual Required Contribution	\$ 22,000
Interest on net OPEB Obligation	3,000
Adjustment to ARC	(9,000)
Annual OPEB cost	<u>16,000</u>
Interest on Employer Contributions	-
Contributions made*	<u>(6,000)</u>
Increase in net OPEB obligation	10,000
Net OPEB obligation - beginning of year	72,000
Net OPEB obligation - end of year	<u><u>\$ 82,000</u></u>

*Represents a credit for the implied subsidy

Funded Status and Funding Progress

The funded status of the plan as of September 30, 2016 was as follows:

Actuarial accrued liability	\$	123,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	123,000
Funded ratio		0%
Covered payroll	\$	1,709,000
UAAL as a percentage of covered payroll		7.2%

NOTE 11 – COMMITMENTS

Interlocal Agreements

On January 10, 2012, the Town entered into an interlocal agreement with the City of Deerfield Beach, Florida to furnish emergency medical and fire protection services. The agreement had an annual base fee of \$592,540 to be adjusted annually to offset increased costs based upon further changes to the fees paid to Broward Sheriff's Office (BSO) by the City of Deerfield Beach pursuant to the BSO contract. In the current fiscal year, the fee was adjusted and the fee paid to the City of Deerfield Beach under this agreement was \$750,000.

NOTE 12 – LITIGATION

There are erosions problems on Town's beaches cause by groins installed by the City of Deerfield Beach, Florida ("Deerfield Beach"). Certain permits state that if the groins have an adverse impact on the Town it is Deerfield Beach's responsibility to take corrective action. After attempts to negotiate an interlocal agreement with the Deerfield Beach failed, the Town initiated a Florida Statute 164 proceeding. The case moved to mediation, however, a resolution has not been reached as of current year end. See Note 14 – Subsequent Events for further action taken by the Town subsequent to fiscal year end.

NOTE 13 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There were no settled claims during the past three years.

NOTE 14 – SUBSEQUENT EVENTS

Drinking Water State Revolving Fund Construction Loan Agreement

Subsequent to fiscal year end the Town entered into a state revolving fund loan with the Florida Department of Environmental Protection to provide financing for the Transmission and Distribution Project. The loan is a pass through federal grant from the Environmental Protection Agency. The estimated principal amount of the loan is \$6,672,209. The rate of interest on the unpaid principal of the loan amount is 1.08% per annum; a separate interest rate will be established for any additional funds provided by amendment to this agreement. Loan payments are due beginning on May 15, 2018 and semiannually thereafter on November 15 and May 15 of each year until all amounts due have been fully paid. Each semiannual loan payment shall be in the amount of \$189,665 until the payment amount is adjusted by amendment. The loan is secured by the pledged revenues of the water fund which are defined as the water surcharge and gross revenues minus the operating and maintenance expenses and the satisfaction of all yearly payment obligations on account of any senior obligations. The Town is also subjected to certain covenants and is mandated to establish water rates going forward so that each fiscal year they will provide pledged revenues which are at least 115% of the principal and interest coming due on the note in such fiscal year.

Litigation

Subsequent to fiscal year end, the Town initiated legal action under Chapter 164 of the Florida Statute against the City of Deerfield Beach, Florida to honor the permit conditions regarding the groins.

TOWN OF HILLSBORO BEACH, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 3,751,854	\$ 3,528,514	\$ (223,340)
Special assessments	750,523	745,529	(4,994)
Licenses and permits	57,000	131,194	74,194
Utility and franchise fees	220,000	219,854	(146)
Intergovernmental	241,613	241,539	(74)
Grant revenue	59,950	71,196	11,246
Interest	20,500	52,909	32,409
Miscellaneous	50,000	69,173	19,173
Total revenues	5,151,440	5,059,908	(91,532)
EXPENDITURES			
Current:			
General government	525,539	673,401	(147,862)
Public safety	3,397,995	3,181,213	216,782
Physical environment	388,316	276,558	111,758
Transportation	87,628	87,917	(289)
Building and engineer	50,000	113,229	(63,229)
Beaches	320,500	346,345	(25,845)
Debt service:			
Principal payment	582,165	581,942	223
Interest expense	113,797	114,020	(223)
Capital outlay	-	40,559	(40,559)
Total expenditures	5,465,940	5,415,184	50,756
Excess (deficiency) of revenues over (under) expenditures	(314,500)	(355,276)	(40,776)
OTHER FINANCING SOURCES			
Use of fund balance reserves	264,500	-	(264,500)
Transfers in	50,000	50,000	-
Total other financing sources	314,500	50,000	(264,500)
Net change in fund balance	\$ -	(305,276)	\$ (305,276)
Fund balance - beginning		5,338,792	
Fund balance - ending		\$ 5,033,516	

See notes to required supplementary information

TOWN OF HILLSBORO BEACH, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The Town is required to establish a budgetary system and an approved Annual Budget for the general fund. The Town's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Commission. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Commission. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2016.

The overall variance between budgeted and actual general fund revenues for the current fiscal year is the result of non-payments of current fiscal year taxes by some residents. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year relating to public safety.

**TOWN OF HILLSBORO BEACH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

Other Post Employment Benefits

Schedule of Employer Contributions:

Year Ended September 30	Employer Contributions	
	Annual Required Contribution	% Contributed
2014	\$ 19,000	37%
2015	19,000	37%
2016	22,000	27%

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1/2)	Covered Payroll (3)	UAAL as a Percentage of Covered Payroll ((2-1)/3)
April 1, 2011	\$ -	\$ 176,000	\$ 176,000	0.0%	\$ 1,574,000	11.2%
January 1, 2014	-	106,000	106,000	0.0%	1,699,000	6.2%
October 1, 2015	-	123,000	123,000	0.0%	1,709,000	7.2%

**TOWN OF HILLSBORO BEACH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF
NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Schedule of the Town's Proportionate Share of the Net Pension Liability -
Florida Retirement System Pension Plan
Last 10 Years (1) (2)**

	2016	2015
Town's proportion of the FRS net pension liability	0.01117190%	1.01757100%
Town's proportionate share of the FRS net pension liability	\$ 2,820,914	\$ 1,314,330
Town's covered employee payroll	\$ 1,728,913	\$ 1,687,914
Town's proportionate share of the FRS net pension liability as a percentage of its covered employee payroll	163.16%	77.87%
FRS plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%

Schedule of the Town's Proportionate Share of the Net Pension Liability -

	2016	2015
Town's proportion of the HIS net pension liability	0.005964028%	0.006147330%
Town's proportionate share of the HIS net pension liability	\$ 695,083	\$ 626,931
Town's covered employee payroll	\$ 1,728,913	\$ 1,687,914
Town's proportionate share of the HIS net pension liability as a percentage of its covered employee payroll	40.20%	37.14%
HIS plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%

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

(2) Information is only available for the years presented.

**TOWN OF HILLSBORO BEACH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

**Schedule of the Town Contributions -
Florida Retirement System Pension Plan
Last 10 Fiscal Years (1) (2)**

	2016	2015
Contractually required FRS contribution	\$ 260,082	\$ 248,093
FRS contributions in relation to the contractually required contribution	(260,082)	(248,093)
FRS contribution deficiency (excess)	\$ -	\$ -
Town's covered employee payroll	\$ 1,664,196	\$ 1,720,063
FRS contributions as a percentage of covered employee payroll	15.63%	14.42%

Schedule of the Town Contributions -

	2016	2015
Contractually required HIS contribution	\$ 27,626	\$ 23,499
HIS contributions in relation to the contractually required contribution	(27,626)	(23,499)
HIS contribution deficiency (excess)	\$ -	\$ -
Town's covered employee payroll	\$ 1,664,196	\$ 1,720,063
HIS contributions as a percentage of covered employee payroll	1.66%	1.37%

(1) The amounts presented for each fiscal year were determined as of September 30.

(2) Information is only available for the years presented.



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

To the Town Commission
Town of Hillsboro 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, business type activities and each major fund of the Town of Hillsboro Beach, Florida ("Town") as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our opinion thereon dated June 29, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 29, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES, REQUIRED BY
RULE 10.556(10) OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Town Commission
Town of Hillsboro Beach, Florida

We have examined the Town of Hillsboro Beach, Florida's ("Town") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2016. Management is responsible for Town's compliance with those requirements. Our responsibility is to express an opinion on Town's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Town's compliance with specified requirements.

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

This report 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, management, and the Town Commission of the Town of Hillsboro Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

June 29, 2017



**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Town Commission
Town of Hillsboro Beach, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Town of Hillsboro Beach, Florida ("Town") as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 29, 2017.

Auditor's Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 29, 2017, should be considered in conjunction with this management letter.

Purpose of this Letter

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the Town, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

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, as applicable, management, and the Town Commission of the Town of Hillsboro Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Town of Hillsboro Beach, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

June 29, 2017

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND CURRENT YEAR STATUS

2015-01: Payroll

Current Status: Recommendation has been implemented.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2015.

2. Any recommendations to improve the local governmental entity's financial management.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2016.

3. Noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2016.

4. The name or official title and legal authority of the Town are disclosed in the notes to the financial statements.

5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2016 financial audit report.

6. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

7. We applied financial condition assessment procedures and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.