

**TOWN OF HILLSBORO BEACH, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2014**

**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, 2014, 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, 2014, 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, 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 19, 2015, 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 19, 2015, 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 19, 2015

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, 2014. 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 of the Town exceeded its liabilities at the close of the fiscal year ended September 30, 2014, resulting in a net position balance of \$10,118,738.
- The Town's net position increased by \$2,643,053 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, 2014, the Town's governmental fund reported a total ending fund balance of \$5,946,347, an increase of \$3,141,351 in comparison with the prior year. Of the total fund balance, \$82,650 is non-spendable for prepaid items; \$364,979 is restricted for capital projects, \$100 is assigned related to forfeitures and seizures, and \$5,498,618 is unassigned fund balance which is available for spending at the Town's discretion.

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.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

2) Fund Financial Statement (Continued)

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 individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered 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 exceeded liabilities at the close of the most recent fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	NET POSITION					
	SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 11,421,079	\$ 9,059,721	\$ 764,048	\$ 2,525,125	\$ 12,185,127	\$ 11,584,846
Capital assets, net of depreciation	1,486,429	1,561,059	6,680,789	7,042,324	8,167,218	8,603,383
Total assets	12,907,508	10,620,780	7,444,837	9,567,449	20,352,345	20,188,229
Current liabilities	222,957	292,132	89,532	297,474	312,489	589,606
Long-term liabilities	4,737,388	5,324,411	5,183,730	6,798,527	9,921,118	12,122,938
Total liabilities	4,960,345	5,616,543	5,273,262	7,096,001	10,233,607	12,712,544
Net position						
Net investment in capital assets	1,486,429	1,561,059	1,526,863	291,650	3,013,292	1,852,709
Restricted	350,354	349,541	-	50,289	350,354	399,830
Unrestricted	6,110,380	3,093,637	644,712	2,129,509	6,755,092	5,223,146
Total net position	\$ 7,947,163	\$ 5,004,237	\$ 2,171,575	\$ 2,471,448	\$ 10,118,738	\$ 7,475,685

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 increased during the most recent fiscal year. The majority of the increase represents the extent to which ongoing program revenues exceeded the cost of operations and depreciation expense.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	CHANGES IN NET POSITION					
	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 165,641	\$ 168,179	\$ 1,239,884	\$ 1,181,752	\$ 1,405,525	\$ 1,349,931
Operating grants and contributions	3,080,428	86,240	-	-	3,080,428	86,240
General revenues:						
Property taxes	3,254,441	3,176,022	-	-	3,254,441	3,176,022
Utility and franchise fees	225,760	206,694	-	-	225,760	206,694
Intergovernmental revenue	222,594	212,308	-	-	222,594	212,308
Unrestricted investment earnings	-	-	751	4,085	751	4,085
Gain (loss) on the disposition of fixed assets	-	15,000	-	(47,222)	-	(32,222)
Miscellaneous	-	-	61,142	60,581	61,142	60,581
Total revenues	6,948,864	3,864,443	1,301,777	1,199,196	8,250,641	5,063,639
Expenses:						
Governmental activities:						
General government	685,928	731,595	-	-	685,928	731,595
Public safety	3,021,793	2,965,323	-	-	3,021,793	2,965,323
Physical environment	285,305	436,537	-	-	285,305	436,537
Transportation	80,011	72,665	-	-	80,011	72,665
Culture and recreation	68,766	37,006	-	-	68,766	37,006
Interest expense	139,135	155,301	-	-	139,135	155,301
Business - type activities:						
Water utilities	-	-	1,326,650	890,342	1,326,650	890,342
Total expenses	4,280,938	4,398,427	1,326,650	890,342	5,607,588	5,288,769
Transfers	275,000	275,000	(275,000)	(275,000)	-	-
Change in net position	2,942,926	(258,984)	(299,873)	33,854	2,643,053	(225,130)
Net position - beginning	5,004,237	5,263,221	2,471,448	2,437,594	7,475,685	7,700,815
Net position - ending	\$ 7,947,163	\$ 5,004,237	\$ 2,171,575	\$ 2,471,448	\$ 10,118,738	\$ 7,475,685

Governmental activities

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2014 was \$4,280,938. These activities were financed through revenues of \$6,948,864 which consist primarily of ad valorem taxes and grant revenues. The increase in total revenues in fiscal year 2014 is primarily a result of \$3,035,680 in grant revenue earned in fiscal year 2014.

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 increased in the current year mainly as a result of increases in depreciation, interest and repairs and maintenance charges.

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, 2014.

GENERAL BUDGETING HIGHLIGHTS (Continued)

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of unexpected grant revenue related to the beach renourishment. 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, 2014, the Town had \$2,969,030 invested in land, buildings, infrastructure and machinery and equipment, for its governmental activities. In the government-wide financial statements depreciation of \$1,482,601 has been taken, which resulted in a net book value of \$1,486,429 and the Town's business-type activities reported net capital assets of \$6,680,789. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

CAPITAL DEBT

At September 30, 2014, the Town had a \$4,332,865 loan outstanding for its governmental activities. For business-type activities, the Town had a loan outstanding of \$5,153,926. 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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 665,787	\$ 278,799	\$ 944,586
Investments	1,935,720	363,538	2,299,258
Accounts receivable, net	3,118,257	117,179	3,235,436
Assessments receivable	5,253,686	-	5,253,686
Prepays	82,650	4,532	87,182
Restricted assets:			
Cash	364,979	-	364,979
Capital assets:			
Nondepreciable	30,000	-	30,000
Depreciable, net	1,456,429	6,680,789	8,137,218
Total assets	<u>12,907,508</u>	<u>7,444,837</u>	<u>20,352,345</u>
LIABILITIES			
Accounts payable	52,926	82,770	135,696
Accrued liabilities	89,974	-	89,974
Accrued interest payable	65,432	6,762	72,194
Customer deposits	14,625	-	14,625
Noncurrent liabilities:			
Due in less than one year:			
Note payable	565,099	271,259	836,358
Compensated absences	63,521	1,828	65,349
Due in more than one year:			
Note payable	3,767,766	4,882,667	8,650,433
Compensated absences	280,002	27,976	307,978
Net OPEB obligation	61,000	-	61,000
Total liabilities	<u>4,960,345</u>	<u>5,273,262</u>	<u>10,233,607</u>
NET POSITION			
Net investment in capital assets	1,486,429	1,526,863	3,013,292
Restricted	350,354	-	350,354
Unrestricted	6,110,380	644,712	6,755,092
Total net position	<u>\$ 7,947,163</u>	<u>\$ 2,171,575</u>	<u>\$ 10,118,738</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014**

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	\$ 685,928	\$ 100,359	\$ -	\$ (585,569)	\$ -	\$ (585,569)
Public safety	3,021,793	-	-	(3,021,793)	-	(3,021,793)
Physical environment	285,305	65,282	3,080,428	2,860,405	-	2,860,405
Transportation	80,011	-	-	(80,011)	-	(80,011)
Building and engineering	68,766	-	-	(68,766)	-	(68,766)
Interest	139,135	-	-	(139,135)	-	(139,135)
Total governmental activities	4,280,938	165,641	3,080,428	(1,034,869)	-	(1,034,869)
Business-type activities:						
Water utilities	1,326,650	1,239,884	-	-	(86,766)	(86,766)
Total business-type activities	1,326,650	1,239,884	-	-	(86,766)	(86,766)
Total	5,607,588	1,405,525	3,080,428	(1,034,869)	(86,766)	(1,121,635)
General revenues:						
Property taxes				3,254,441	-	3,254,441
Utility and franchise fees				225,760	-	225,760
Intergovernmental revenue				222,594	-	222,594
Unrestricted investment earnings				-	751	751
Miscellaneous				-	61,142	61,142
Transfers in (out)				275,000	(275,000)	-
Total general revenues and transfers				3,977,795	(213,107)	3,764,688
Change in net position				2,942,926	(299,873)	2,643,053
Net position - beginning				5,004,237	2,471,448	7,475,685
Net position - ending				\$ 7,947,163	\$ 2,171,575	10,118,738

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2014**

	Major Fund General	Total Governmental Funds
ASSETS		
Cash	\$ 665,787	\$ 665,787
Investments	1,935,720	1,935,720
Accounts receivable, net	3,118,257	3,118,257
Assessments receivable	5,253,686	5,253,686
Prepays	82,650	82,650
Cash-restricted	364,979	364,979
Total assets	\$ 11,421,079	\$ 11,421,079
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 52,926	\$ 52,926
Accrued liabilities	153,495	153,495
Customer deposits	14,625	14,625
Total liabilities	221,046	221,046
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - special assessments	5,253,686	5,253,686
Total deferred inflows of resources	5,253,686	5,253,686
Fund balance:		
Nonspendable:		
Prepaid items	82,650	82,650
Restricted:		
Capital projects	364,979	364,979
Assigned:		
Forfeitures and seizures	100	100
Unassigned	5,498,618	5,498,618
Total fund balance	5,946,347	5,946,347
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,421,079	\$ 11,421,079

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, 2014**

Fund balance - governmental funds \$ 5,946,347

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	2,969,030	
Accumulated depreciation	<u>(1,482,601)</u>	1,486,429

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. 5,253,686

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		(61,000)
Interest payable		(65,432)
Note payable		(4,332,865)
Compensated absences due in more than one year		<u>(280,002)</u>

Net position of governmental activities		<u><u>\$ 7,947,163</u></u>
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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, 2014

	Major Fund General	Total Governmental Funds
REVENUES		
Property taxes	\$ 3,254,441	\$ 3,254,441
Special assessments	750,667	750,667
Licenses and permits	100,359	100,359
Utility and franchise fees	225,760	225,760
Intergovernmental	222,594	222,594
Grant revenue	3,079,354	3,079,354
Interest	1,074	1,074
Miscellaneous	65,282	65,282
Total revenues	7,699,531	7,699,531
EXPENDITURES		
Current:		
General government	654,073	654,073
Public safety	2,992,422	2,992,422
Physical environment	285,305	285,305
Transportation	80,011	80,011
Building and engineering	68,766	68,766
Debt service:		
Principal payment	548,544	548,544
Interest expense	147,418	147,418
Capital outlay	56,641	56,641
Total expenditures	4,833,180	4,833,180
Excess (deficiency) of revenues over (under) expenditures	2,866,351	2,866,351
OTHER FINANCING SOURCES (USES)		
Transfer in from other fund	275,000	275,000
Total other financing sources (uses)	275,000	275,000
Net change in fund balances	3,141,351	3,141,351
Fund balance - beginning	2,804,996	2,804,996
Fund balance - ending	\$ 5,946,347	\$ 5,946,347

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
RECONCILLIATION 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, 2014**

Net change in fund balance - total governmental funds \$ 3,141,351

Amounts reported for governmental activities in the statement of activities are difference 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. 68,214

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. (750,667)

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. 548,544

Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities. (142,844)

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:

Change in long-term compensated absences due in more than one year 79,045

Other post employment benefit obligation (9,000)

Change in accrued interest 8,283

Change in net position of governmental activities \$ 2,942,926

See notes to the financial statements

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET POSITION - PROPRIETARY FUND
SEPTEMBER 30, 2014

	Enterprise Fund <u>Water Utility</u>
ASSETS	
Current assets:	
Cash	\$ 278,799
Investments	363,538
Accounts receivable, net	117,179
Prepaid expenses	4,532
Total current assets	<u>764,048</u>
Noncurrent assets:	
Capital assets:	
Buildings	1,994,315
Distribution system	5,003,316
Plant improvements	572,883
Infrastructure	102,068
Meters	388,983
Vehicles	68,019
Machinery and equipment	110,674
Less accumulated depreciation	<u>(1,559,469)</u>
Total capital assets, net	<u>6,680,789</u>
Total noncurrent assets	<u>6,680,789</u>
Total assets	<u>7,444,837</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	82,770
Accrued interest payable	6,762
Compensated absences	1,828
Current portion of loan payable	<u>271,259</u>
Total current liabilities	<u>362,619</u>
Noncurrent liabilities:	
Loan payable	4,882,667
Compensated absences	27,976
Total noncurrent liabilities	<u>4,910,643</u>
Total liabilities	<u>5,273,262</u>
NET POSITION	
Net investment in capital assets	1,526,863
Unrestricted	<u>644,712</u>
Total net position	<u>\$ 2,171,575</u>

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, 2014**

	Enterprise Fund <u>Water Utility</u>
OPERATING REVENUES	
Charges for services	\$ 1,239,884
Total operating revenues	<u>1,239,884</u>
OPERATING EXPENSES	
Salaries and benefits	407,571
Operating	241,381
Repairs and maintenance	175,240
Depreciation and amortization	365,525
Total operating expense	<u>1,189,717</u>
Operating income	<u>50,167</u>
NON OPERATING REVENUES (EXPENSES)	
Interest revenue	751
Interest expense	(136,933)
Miscellaneous revenue	61,142
Total non operating revenue (expenses)	<u>(75,040)</u>
Income before transfers	(24,873)
Transfers (out)	<u>(275,000)</u>
Change in net position	(299,873)
Total net position - beginning	<u>2,471,448</u>
Total net position - ending	<u>\$ 2,171,575</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, 2014**

	Enterprise Fund <u>Water Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,227,908
Payments to employees	(425,620)
Payments to suppliers of goods and services	(498,812)
Net cash provided (used) by operating activities	<u>303,476</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous revenue	61,142
Transfer out	(275,000)
Net cash provided (used) by noncapital financing activities	<u>(213,858)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(147,652)
Proceeds from long term debt	2,233,322
Principal paid	(3,830,070)
Interest paid	(133,376)
Net cash provided (used) by capital and related financing activities	<u>(1,877,776)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	751
Sales of investments	1,302,580
Net cash provided (used) by investing activities	<u>1,303,331</u>
Net increase (decrease) in cash and cash equivalents	(484,827)
Cash and cash equivalents - October 1	<u>763,626</u>
Cash and cash equivalents - September 30	<u>\$ 278,799</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 50,167
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	365,525
(Increase) decrease in accounts receivable	(11,976)
(Increase) decrease in prepaids	(2,754)
Increase (decrease) in accounts payable	(67,837)
Increase (decrease) in due to other funds	(11,600)
Increase (decrease) in compensated absences	(18,049)
Total adjustments	<u>253,309</u>
Net cash provided (used) by operating activities	<u>\$ 303,476</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 an elected Mayor, Vice Mayor, and Town Commission which appoints a Town Clerk. 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, 2014 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.

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.

The State Board of Administration's Local Government Surplus Funds Trust Fund (Florida PRIME) is a "2a-7 like" pool. A "2a-7 like" pool is an external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Rule 2a-7 is the rule that allows money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. The Town has reported its investment in Florida PRIME at the same value as the pooled shares allocated to the Town.

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

The Town records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

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.

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 Clerk 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.

Investments

The Town's investments were held as follows at September 30, 2014:

Governmental Activities	Fair Value	Credit Risk	Maturities
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	<u>\$ 1,935,720</u>	S&P AAAM	Weighted average of the fund portfolio: 39 days
Business-Type Activities			
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	<u>\$ 363,538</u>	S&P AAAM	Weighted average of the fund portfolio: 39 days

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.

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended September 30, 2014 were as follows:

Fund	Transfers in	Transfers out
General	\$ 275,000	\$ -
Water	-	275,000
Total	<u>\$ 275,000</u>	<u>\$ 275,000</u>

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 – ACCOUNTS RECEIVABLE

Receivables at September 30, 2014, for the Town's major fund accounts are as follows:

	General	Water	Total
Intergovernmental	\$ 3,051,570	\$ -	\$ 3,051,570
Franchise fee	62,264	-	62,264
Other receivables	4,423	1,782	6,205
Customer accounts receivable	22,970	139,852	162,822
Gross accounts receivable	3,141,227	141,634	3,282,861
Less: Allowance for uncollectible accounts	(22,970)	(24,455)	(47,425)
Accounts receivable, net	<u>\$ 3,118,257</u>	<u>\$ 117,179</u>	<u>\$ 3,235,436</u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the governmental activities for the fiscal year ended September 30, 2014 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	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Capital assets, being depreciated				
Buildings	1,811,823	-	-	1,811,823
Machinery and equipment	937,928	51,842	37,024	952,746
Improvements other than buildings	164,034	16,372	5,945	174,461
Total capital assets, being depreciated	<u>2,913,785</u>	<u>68,214</u>	<u>42,969</u>	<u>2,939,030</u>
Less accumulated depreciation for:				
Buildings	(515,902)	(35,086)	-	(550,988)
Machinery and equipment	(761,930)	(93,092)	(37,024)	(817,998)
Improvements other than buildings	(104,894)	(14,666)	(5,945)	(113,615)
Total accumulated depreciation	<u>(1,382,726)</u>	<u>(142,844)</u>	<u>(42,969)</u>	<u>(1,482,601)</u>
Total capital assets, being depreciated, net	<u>1,531,059</u>	<u>(74,630)</u>	<u>-</u>	<u>1,456,429</u>
Governmental activities capital assets, net	<u>\$ 1,561,059</u>	<u>\$ (74,630)</u>	<u>\$ -</u>	<u>\$ 1,486,429</u>

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation is allocated as follows:

General government	\$	22,855
Public safety		119,989
	\$	<u>142,844</u>

Capital asset activity for the business-type activities for the fiscal year ended September 30, 2014 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	5,000,426	2,890	-	5,003,316
Plant improvements	572,883	-	-	572,883
Infrastructure	102,068	-	-	102,068
Meters	388,983	-	-	388,983
Vehicles	68,019	-	-	68,019
Machinery and equipment	109,574	1,100	-	110,674
Total capital assets, being depreciated	<u>8,236,268</u>	<u>3,990</u>	<u>-</u>	<u>8,240,258</u>
Less accumulated depreciation for:				
Buildings	(136,823)	(99,716)	-	(236,539)
Distribution system, plant improvements, and infrastructure	(757,010)	(153,752)	-	(910,762)
Meters, Vehicles, Machinery & Equipment	(300,111)	(112,057)	-	(412,168)
Total accumulated depreciation	<u>(1,193,944)</u>	<u>(365,525)</u>	<u>-</u>	<u>(1,559,469)</u>
Total capital assets, being depreciated, net	<u>7,042,324</u>	<u>(361,535)</u>	<u>-</u>	<u>6,680,789</u>
Business-type activities capital assets, net	<u>\$ 7,042,324</u>	<u>\$ (361,535)</u>	<u>\$ -</u>	<u>\$ 6,680,789</u>

NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Governmental activities</u>					
Beach note	\$ 4,881,409	\$ -	\$ 548,544	\$ 4,332,865	\$ 565,099
Compensated absences	391,002	160,540	208,019	343,523	63,521
	<u>\$ 5,272,411</u>	<u>\$ 160,540</u>	<u>\$ 756,563</u>	<u>\$ 4,676,388</u>	<u>\$ 628,620</u>
<u>Business-type activities</u>					
Water plant loan ("BOA")	\$ 3,653,491	\$ -	\$ 3,653,491	\$ -	\$ -
Water plant loan ("SRF")	3,097,183	2,233,322	176,579	5,153,926	271,259
Compensated absences	47,853	23,130	41,848	29,135	1,828
	<u>\$ 6,798,527</u>	<u>\$ 2,256,452</u>	<u>\$ 3,871,918</u>	<u>\$ 5,183,061</u>	<u>\$ 273,087</u>

NOTE 8 – LONG-TERM LIABILITIES (Continued)

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.

At September 30, 2014, the scheduled debt service requirements on the beach renourishment promissory note were as follows:

	Principal	Interest	Total
2015	\$ 565,099	\$ 130,863	\$ 695,962
2016	582,165	113,797	695,962
2017	599,746	96,216	695,962
2018	617,859	78,103	695,962
2019	636,518	59,444	695,962
2020-2021	1,331,478	60,639	1,392,117
Total	\$ 4,332,865	\$ 539,062	\$ 4,871,927

Water Plant Loan Agreement “BOA”

On December 30, 2010, the Town entered into a draw down loan facility agreement with a bank in the principal amount of \$5,200,000 for the purpose of constructing certain improvements to the Town’s potable water system. The debt is expected to be repaid over a period of approximately 20 years and bears variable interest of 62.5% of the daily LIBOR rate plus 1.47%. The Town paid the loan in full during the fiscal year ended September 30, 2014.

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. 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, 2014, the Town owes \$5,153,926 on this loan which includes interest added to debt of \$66,957.

NOTE 8 – LONG-TERM LIABILITIES (Continued)

At September 30, 2014, the scheduled debt service requirements on water plant loan “SRF” were as follows:

	Principal	Interest	Total
2015	\$ 271,259	\$ 124,725	\$ 395,984
2016	271,259	124,725	395,984
2017	271,259	124,725	395,984
2018	271,259	124,725	395,984
2019	271,259	124,725	395,984
2020-2024	1,356,296	623,625	1,979,921
2025-2029	1,356,296	623,625	1,979,921
2030-2033	1,085,039	498,900	1,583,939
Total	\$ 5,153,926	\$ 2,369,775	\$ 7,523,701

NOTE 9 – RETIREMENT PLAN

Plan Description

The Town contributes to the Florida Retirement System (FRS), a cost-sharing multiple-employer defined benefit pension plan. FRS was created by the Florida Legislature and is administered by the State of Florida, Department of Administration, Division of Retirement. FRS provides retirement, disability or death benefits for retirees or their designated beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State of Constitution and Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis.

Normal retirement age in the regular, senior management service and elected officers' classes is 62. In the special risk service class, normal retirement age is 55. If a member is vested but has not reached normal retirement age, early retirement can be taken. The amount of the benefit will be reduced 5% for each year the retirement date preceded normal retirement age.

In addition, eligible FRS members can elect to participate in the Deferred Retirement Option Program (DROP). The DROP allows an employee to retire and defer their monthly retirement benefit to an interest-bearing account, for up to a maximum of 60 months, and to continue employment with the Town. When the DROP period ends, the employee must terminate employment. At that time, the employee will receive payment of the accumulated DROP benefits, and direct receipt, thereafter, of the FRS monthly retirement benefit.

FRS issues a publicly available financial report that includes a statement of financial condition, investment objectives and policy, an actuarial report, historical and statistical information on active members, annuitants, and benefit payments, as well as a description of the retirement plan. That report may be obtained by writing to the Division of Retirement, 1317 Winewood Blvd., Bldg 8, Tallahassee, Florida 32399-1560, or by calling (850) 488-2784.

Funding Policy

Participating employers are required to make contributions based upon statewide contribution rates. Contributions to the FRS are made by the Town as a percentage of covered payroll. The required contribution percentage is effective from July 1 – June 30 of a given year and is determined by employees' membership plan and class. As of July 2013, the Town's required contribution rate for regular employees and special risk employees was 6.95% and 19.06% respectively and increased to 7.37% and 19.82% respectively as of July 2014. It should also be noted that beginning July 1, 2011 all employees were required to contribute 3% to the Plan. The Town's contributions to FRS for the fiscal years ended September 30, 2014, 2013 and 2012 were \$273,113, \$213,187, and \$174,314, respectively, equal to the required contributions for each year.

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	5
Over age 65	0
Total current retirees	<u>5</u>
Active employees:	
Active employees fully eligible for benefits	6
Active employees not yet fully eligible for benefits	19
Total active employees	<u>25</u>
Total number of participants	<u><u>30</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	1/1/2014
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):	
Select rates	<u>Insurance premiums</u> 8% for 2014 graded to 5.50% for 2019
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	\$ 19,000
Interest on net OPEB Obligation	2,000
Adjustment to ARC	<u>(5,000)</u>
Annual OPEB cost	16,000
Interest on Employer Contributions	-
Contributions made*	<u>(7,000)</u>
Increase in net OPEB obligation	9,000
Net OPEB obligation - beginning of year	<u>52,000</u>
Net OPEB obligation - end of year	<u><u>\$ 61,000</u></u>

*Represents a credit for the implied subsidy

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

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2014 was as follows:

Actuarial accrued liability	\$	106,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	106,000
Funded ratio		0%
Covered payroll	\$	1,699,000
UAAL as a percentage of covered payroll		6.2%

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 \$706,114.

NOTE 12 – 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. Settled claims from these risks have not exceeded commercial insurance coverage for each of the past three fiscal years.

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, 2014

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 3,317,808	\$ 3,254,441	\$ (63,367)
Special assessments	750,523	750,667	144
Licenses and permits	134,000	100,359	(33,641)
Utility and franchise fees	220,000	225,760	5,760
Intergovernmental	216,584	222,594	6,010
Grant revenue	-	3,079,354	3,079,354
Interest	-	1,074	1,074
Miscellaneous	54,500	65,282	10,782
Total revenues	4,693,415	7,699,531	3,006,116
EXPENDITURES			
Current:			
General government	543,508	654,073	(110,565)
Public safety	3,119,693	2,992,422	127,271
Physical environment	488,692	285,305	203,387
Transportation	79,560	80,011	(451)
Building and engineer	41,000	68,766	(27,766)
Debt service:			
Principal payment	548,533	548,544	(11)
Interest expense	147,429	147,418	11
Capital outlay	-	56,641	(56,641)
Total expenditures	4,968,415	4,833,180	135,235
Excess (deficiency) of revenues over (under) expenditures	(275,000)	2,866,351	3,141,351
OTHER FINANCING SOURCES			
Transfers in	275,000	275,000	-
	275,000	275,000	-
Net change in fund balance	\$ -	3,141,351	\$ 3,141,351
Fund balance - beginning		2,804,996	
Fund balance - ending		\$ 5,946,347	

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, 2014.

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of unexpected grant revenue related to the beach renourishment. 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, 2014**

Other Post Employment Benefits

Schedule of Employer Contributions:

Year Ended September 30	Employer Contributions	
	Annual Required Contribution	% Contributed
2012	\$ 18,000	39%
2013	19,000	37%
2014	19,000	37%

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%



**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, 2014, 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 19, 2015.

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 19, 2015



**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, 2014. 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, 2014.

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 19, 2015



**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, 2014, and have issued our report thereon dated June 19, 2015.

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 Florida 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 19, 2015, 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 19, 2015

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND CURRENT YEAR STATUS

2013-01 Disbursement Controls:

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, 2013, except as noted above.

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, 2014.

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, 2014.

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, 2014 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 as of September 30, 2014. 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.