

**TOWN OF HILLSBORO BEACH, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2010**

TOWN OF HILLSBORO BEACH, FLORIDA

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INDEPENDENT AUDITOR'S REPORT

To the Town Commission
Town of Hillsboro Beach, Florida

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, 2010, which collectively comprises the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and for the fiscal year ended September 30, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, 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, and contracts, and agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of employer contributions and schedule of 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.

Grau & Associates

August 29, 2011

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, 2010. 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, 2010, resulting in a net asset balance of \$4,710,041. Of this amount, \$1,824,684 is unrestricted net assets which may be used to meet the Town's ongoing obligations.
- The Town's net assets decreased by \$(171,778) in comparison with the prior year. This was in part due to expenditures involving the beach restoration project. The key components of the Town's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2010, the Town's governmental fund reported combined ending fund balance of \$1,431,519 a decrease of \$(132,523) in comparison with the prior year. Of the total fund balance, \$1,394,740 is unreserved fund balance which is available for spending at the Town's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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.

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 assets presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Town's net assets changed during the most recent fiscal year. All changes in net assets 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 operation.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 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.

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 assets 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 assets are reflected in the following table:

	NET ASSETS					
	SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,734,750	\$ 2,004,419	\$ 745,752	\$ 1,012,312	\$ 2,480,502	\$ 3,016,731
Capital assets, net of depreciation	1,732,273	1,869,181	1,153,084	807,113	2,885,357	2,676,294
Total assets	3,467,023	3,873,600	1,898,836	1,819,425	5,365,859	5,693,025
Current liabilities	303,231	440,377	7,072	8,824	310,303	449,201
Long-term liabilities	326,579	322,150	18,936	39,855	345,515	362,005
Total liabilities	629,810	762,527	26,008	48,679	655,818	811,206
Net assets						
Invested in capital assets	1,732,273	1,869,181	1,153,084	807,113	2,885,357	2,676,294
Unrestricted	1,104,940	1,241,892	719,744	963,633	1,824,684	2,205,525
Total net assets	\$ 2,837,213	\$ 3,111,073	\$ 1,872,828	\$ 1,770,746	\$ 4,710,041	\$ 4,881,819

A portion of the Town's net assets 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.

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

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

	CHANGES IN NET ASSETS					
	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 196,622	\$ 42,346	\$ 782,637	\$ 799,934	\$ 979,259	\$ 842,280
Operating grants and contributions	52,347	673,059	-	-	52,347	673,059
Capital grants and contributions	-	18,000	-	-	-	18,000
General revenues:						
Property taxes	2,989,673	2,988,759	-	-	2,989,673	2,988,759
Utility and franchise fees	246,086	246,339	-	-	246,086	246,339
Intergovernmental revenue	221,503	223,513	-	-	221,503	223,513
Unrestricted investment earnings	33,419	16,120	10,921	7,012	44,340	23,132
Miscellaneous	57,710	55,926	49,595	49,339	107,305	105,265
Total revenues	3,797,360	4,264,062	843,153	856,285	4,640,513	5,120,347
Expenses:						
Governmental activities:						
General government	418,566	325,098	-	-	418,566	325,098
Public safety	2,891,318	2,918,567	-	-	2,891,318	2,918,567
Physical environment	661,490	1,284,178	-	-	661,490	1,284,178
Transportation	64,476	81,322	-	-	64,476	81,322
Culture and recreation	35,370	55,235	-	-	35,370	55,235
Business - type activities:						
Water utilities	-	-	741,071	730,443	741,071	730,443
Total expenses	4,071,220	4,664,400	741,071	730,443	4,812,291	5,394,843
Change in net assets	(273,860)	(400,338)	102,082	125,842	(171,778)	(274,496)
Net assets, beginning	3,111,073	3,511,411	1,770,746	1,644,904	4,881,819	5,156,315
Net assets, ending	\$ 2,837,213	\$ 3,111,073	\$ 1,872,828	\$ 1,770,746	\$ 4,710,041	\$ 4,881,819

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activities

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2010 was approximately \$4,000,000. The majority of these activities were financed through general revenues of approximately \$3,500,000, which consist primarily of ad valorem, utility and other taxes. Approximately \$249,000 of the total cost was paid by program revenue, which consists primarily of licenses and permits and grants and contributions.

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 expenses increased from the prior fiscal year due primarily to an increase in salaries and repairs and maintenance, offset by a decrease in operating costs.

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. The general fund budget for the fiscal year ended September 30, 2010 was amended to increase appropriations and other financing sources by \$85,707. The increase in appropriations is primarily the result of the additional costs incurred related to the beach renourishment project and loan proceeds (which did not occur until subsequent to fiscal year end). Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2010.

CAPITAL ASSETS

At September 30, 2010, the Town had \$2,794,464 invested in land, construction in progress, buildings, infrastructure and machinery and equipment, for its governmental activities. In the government-wide financial statements depreciation of \$1,062,191 has been taken, which resulted in a net book value of \$1,732,273 and the Town's business-type activities reported net capital assets of \$1,153,084. More detailed information about the Town's capital assets 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.

During December 2010 the Town entered into a draw down facility with a bank in order to finance a project for the construction of a new water utility building in the amount of \$5,200,000. More information can be found in the notes to the financial statements.

Currently, beach erosion threatens homes, other structures, and the very resource that residents and visitors enjoy. The Town is in the process of conducting engineering studies and has implemented activities to control beach erosion activities. In February 2011, the Town entered into a promissory note agreement with a bank in the amount of approximately \$5,900,000 in order to fund the beach restoration project. More information can be found in the notes to the financial statements.

REQUEST 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 Manager, Town of Hillsboro Beach, 1210 Hillsboro Beach Mile, Hillsboro Beach, Florida 33062.

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 71,129	\$ 134,881	\$ 206,010
Investments	1,053,348	949,023	2,002,371
Accounts receivable	132,484	70,886	203,370
Internal balances	417,707	(417,707)	-
Prepays	36,779	8,669	45,448
Restricted assets:			
Temporarily restricted:			
Cash	23,303	-	23,303
Capital assets:			
Nondepreciable	30,000	698,694	728,694
Depreciable, net	1,702,273	454,390	2,156,663
Total assets	<u>3,467,023</u>	<u>1,898,836</u>	<u>5,365,859</u>
LIABILITIES			
Accounts payable	80,330	4,938	85,268
Accrued liabilities	175,856	2,134	177,990
Deferred revenue	23,742	-	23,742
Customer deposits	23,303	-	23,303
Noncurrent liabilities:			
Due in less than one year:			
Compensated absences	33,486	-	33,486
Due in more than one year:			
Compensated absences	275,093	18,936	294,029
Net OPEB obligation	18,000	-	18,000
Total liabilities	<u>629,810</u>	<u>26,008</u>	<u>655,818</u>
NET ASSETS			
Invested in capital assets	1,732,273	1,153,084	2,885,357
Unrestricted	1,104,940	719,744	1,824,684
Total net assets	<u>\$ 2,837,213</u>	<u>\$ 1,872,828</u>	<u>\$ 4,710,041</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:						
Governmental activities:						
General government	\$ 418,566	\$ 196,622	\$ -	\$ (221,944)	\$ -	\$ (221,944)
Public safety	2,891,318	-	-	(2,891,318)	-	(2,891,318)
Physical environment	661,490	-	35,239	(626,251)	-	(626,251)
Transportation	64,476	-	17,108	(47,368)	-	(47,368)
Building and engineering	35,370	-	-	(35,370)	-	(35,370)
Total governmental activities	4,071,220	196,622	52,347	(3,822,251)	-	(3,822,251)
Business-type activities:						
Water utilities	741,071	782,637	-	-	41,566	41,566
Total business-type activities	741,071	782,637	-	-	41,566	41,566
Total	4,812,291	979,259	52,347	(3,822,251)	41,566	(3,780,685)
General revenues:						
Property taxes				2,989,673	-	2,989,673
Utility and franchise fees				246,086	-	246,086
Intergovernmental revenue				221,503	-	221,503
Unrestricted investment earnings				33,419	10,921	44,340
Miscellaneous				57,710	49,595	107,305
Total general revenues				3,548,391	60,516	3,608,907
Change in net assets				(273,860)	102,082	(171,778)
Net assets - beginning				3,111,073	1,770,746	4,881,819
Net assets - ending				\$ 2,837,213	\$ 1,872,828	\$ 4,710,041

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2010**

	Major Fund	Total
	General	Governmental Funds
ASSETS		
Cash	\$ 71,129	\$ 71,129
Investments	1,053,348	1,053,348
Accounts receivable	132,484	132,484
Due from other funds	417,707	417,707
Prepays	36,779	36,779
Cash-restricted	23,303	23,303
Total assets	\$ 1,734,750	\$ 1,734,750
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 80,330	\$ 80,330
Accrued liabilities	175,856	175,856
Deferred revenue	23,742	23,742
Customer deposits	23,303	23,303
Total liabilities	303,231	303,231
Fund balance:		
Reserved for:		
Other	36,779	36,779
Unreserved:		
Undesignated	1,394,740	1,394,740
Total fund balance	1,431,519	1,431,519
Total liabilities and fund balance	\$ 1,734,750	\$ 1,734,750
Fund balance - governmental funds		\$ 1,431,519
Amounts reported for governmental activities in the statement of net assets 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 assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.		
Cost of capital assets	2,794,464	
Accumulated depreciation	(1,062,191)	1,732,273
Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.		
Net OPEB obligation		(18,000)
Compensated absences		(308,579)
Net assets of governmental activities		\$ 2,837,213

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, 2010

	Major Fund	Total
	General	Governmental Funds
REVENUES		
Property taxes	\$ 2,989,673	\$ 2,989,673
Licenses and permits	196,622	196,622
Utility and franchise fees	246,086	246,086
Intergovernmental	221,503	221,503
Grant revenue	52,347	52,347
Interest	33,419	33,419
Miscellaneous	57,710	57,710
Total revenues	3,797,360	3,797,360
EXPENDITURES		
Current:		
General government	378,661	378,661
Public safety	2,789,886	2,789,886
Physical environment	661,490	661,490
Transportation	64,476	64,476
Building and engineering	35,370	35,370
Total expenditures	3,929,883	3,929,883
Excess (deficiency) of revenues over (under) expenditures	(132,523)	(132,523)
Fund balance - beginning	1,564,042	1,564,042
Fund balance - ending	\$ 1,431,519	\$ 1,431,519
Net change in fund balance - total governmental funds		\$ (132,523)
Amounts reported for governmental activities in the statement of activities are different because:		
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		
		(136,908)
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		13,571
Other post employment benefit obligation		(18,000)
Change in net assets of governmental activities		\$ (273,860)

See notes to the financial statements

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2010

	Business-Type Activities
	Enterprise Fund
	Water Utility
ASSETS	
Current assets:	
Cash	\$ 134,881
Investments	949,023
Accounts receivable	70,886
Prepays	8,669
Total current assets	1,163,459
Noncurrent assets:	
Capital assets:	
Construction in progress	698,693
Infrastructure	1,749,397
Machinery and equipment	551,123
Less accumulated depreciation	(1,846,129)
Total capital assets, net of accumulated depreciation	1,153,084
Total noncurrent assets	1,153,084
Total assets	2,316,543
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	4,938
Due to other funds	417,707
Compensated absences	2,134
Total current liabilities	424,779
Noncurrent liabilities:	
Compensated absences	18,936
Total noncurrent liabilities	18,936
Total liabilities	443,715
NET ASSETS	
Invested in capital assets	1,153,084
Unrestricted	719,744
Total net assets	\$ 1,872,828

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Business-Type Activities Enterprise Fund
	Water Utility
OPERATING REVENUES	
Charges for services	\$ 782,637
Total operating revenues	782,637
OPERATING EXPENSES	
Salaries and benefits	457,194
Operating	192,322
Repairs and maintenance	50,181
Depreciation and amortization	41,374
Total operating expense	741,071
Operating income	41,566
NON OPERATING REVENUES (EXPENSES)	
Interest revenue	10,921
Miscellaneous revenue	49,595
Total non operating revenue (expenses)	60,516
Change in net assets	102,082
Total net assets - beginning	1,770,746
Total net assets - ending	\$ 1,872,828

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	Business-Type Activities Enterprise Fund
	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 809,010
Payments to employees	(478,113)
Payments to suppliers of goods and services	(42,074)
Net cash provided by operating activities	288,823
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous revenue	49,595
Net cash provided by noncapital financing activities	49,595
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(387,344)
Net cash (used) by capital and related financing activities	(387,344)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	(510,915)
Interest earnings	10,921
Net cash (used) by investing activities	(499,994)
Net (decrease) in cash and cash equivalents	(548,920)
Cash and cash equivalents - October 1	683,802
Cash and cash equivalents - September 30	\$ 134,882
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 41,566
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	41,374
(Increase) decrease in accounts receivable	26,373
(Increase) decrease in prepaids	3,145
Increase (decrease) in accounts payable	(1,752)
Increase (decrease) in due to other funds	199,036
Increase (decrease) in compensated absences	(20,919)
Total adjustments	247,257
Net cash provided by operating activities	\$ 288,823
NONCASH INVESTING, CAPITAL OR FINANCING ITEM:	
Unrealized gain on investment activities	\$ 34,245

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”) Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the Town Commission 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 assets 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The 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, 2010 was \$2.96 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 funds, property taxes, 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.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to apply subsequent private-sector guidance.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

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.

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.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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	30
Infrastructure	20
Machinery and equipment	3 – 25
Transportation equipment	3
Improvements other than building	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.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Compensated Absences

Paid time off (“PTO”) 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, as a result of employee resignation or retirement. Liability for accrued compensated absences of the governmental activities 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 assets.

Fund Equity/Net Assets

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

Net assets in the government-wide financial statements are categorized as invested in capital assets, restricted or unrestricted. Invested in capital assets represents net assets related to infrastructure and property, plant and equipment. Restricted net assets represent the assets restricted by third party or (statutory) limitations on their use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

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, 2010:

<u>Governmental Activities</u>	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	\$ 991,749	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	61,599	Not rated	*
	<u>\$ 1,053,348</u>		
<u>Business-Type Activities</u>			
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	\$ 927,966	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	21,057	Not rated	*
	<u>\$ 949,023</u>		

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

* The State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool ("Pool") was restructured on December 4, 2007 into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately 86% of Pool assets. Pool B consisted of assets that have either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B and certain restrictions were implemented. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to Pool Fund A. Pool Fund B is not rated by any nationally recognized statistical rating agency. Pool A has been subsequently renamed as Florida PRIME and Pool B has subsequently been renamed as Fund B Surplus Funds Trust Fund ("Fund B").

There are two options for accounting and reporting for money market investment pools either "2a-7 like" or fluctuating net asset value ("NAV"). "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 Local Government Surplus Funds Trust Fund Investment Pool (Florida PRIME) is considered a 2a7-like fund and the Town has reported its investment in Florida PRIME at the same value as the pooled shares allocated to the Town. The estimated weighted average maturity of the Florida PRIME portfolio is 52 days. Fund B is accounted for as a fluctuating NAV pool and the fair value factor for September 30, 2010 was .707058094. The Town has multiplied its account balance by the factor to determine the investment balance to be reported. The estimated weighted average life of the fund (based on expected future cash flows) is estimated at 7.49 years. However, because Fund B consists of restructured or default securities there is considerable uncertainty regarding the weighted average life. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Custodial risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Town has no formal policy for custodial risk. The investments above are not evidenced by securities that exist in physical or book entry form.

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 RECEIVABLES AND PAYABLES

The composition of inter-fund receivables and payables at September 30, 2010 were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 417,707	\$ -
Water	-	417,707
Total	<u>\$ 417,707</u>	<u>\$ 417,707</u>

The outstanding balance between funds represents salaries payable owed to the general fund.

NOTE 6 – ACCOUNTS RECEIVABLE

Receivables at September 30, 2010, for the Town’s major fund accounts are as follows:

	General	Water	Total
Intergovernmental	\$ 17,953	\$ -	\$ 17,953
Property taxes	38,314	-	38,314
Franchise fee	57,956	-	57,956
Other receivables	18,261	22,311	40,572
Customer accounts receivable	-	70,886	70,886
	<u>132,484</u>	<u>93,197</u>	<u>225,681</u>
Less: Allowance for uncollectible accounts	-	(22,311)	(22,311)
	<u><u>\$ 132,484</u></u>	<u><u>\$ 70,886</u></u>	<u><u>\$ 203,370</u></u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2010 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
Transportation equipment	44,217	-	-	44,217
Machinery and equipment	733,863	-	-	733,863
Improvements other than buildings	174,561	-	-	174,561
Total capital assets, being depreciated	<u>2,764,464</u>	<u>-</u>	<u>-</u>	<u>2,764,464</u>
Less accumulated depreciation for:				
Buildings	(397,507)	(34,609)	-	(432,116)
Transportation equipment	(44,217)	-	-	(44,217)
Machinery and equipment	(458,032)	(85,709)	-	(543,741)
Improvements other than buildings	(25,527)	(16,590)	-	(42,117)
Total accumulated depreciation	<u>(925,283)</u>	<u>(136,908)</u>	<u>-</u>	<u>(1,062,191)</u>
Total capital assets, being depreciated, net	<u>1,839,181</u>	<u>(136,908)</u>	<u>-</u>	<u>1,702,273</u>
Governmental activities capital assets, net	<u><u>\$ 1,869,181</u></u>	<u><u>\$ (136,908)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,732,273</u></u>

Depreciation is allocated as follows:

General government	\$ 21,905
Public safety	<u>\$ 115,003</u>
	<u><u>\$ 136,908</u></u>

NOTE 7 – CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated				
Construction in progress	\$ 356,895	\$ 341,799	\$ -	\$ 698,694
Total capital assets, not being depreciated	<u>356,895</u>	<u>341,799</u>	<u>-</u>	<u>698,694</u>
Capital assets, being depreciated				
Infrastruture	1,703,851	-	-	1,703,851
Machinery and equipment	551,123	45,546	-	596,669
Total capital assets, being depreciated	<u>2,254,974</u>	<u>45,546</u>	<u>-</u>	<u>2,300,520</u>
Less accumulated depreciation for:				
Infrastruture	(1,458,423)	(8,092)	-	(1,466,515)
Machinery and equipment	(346,333)	(33,282)	-	(379,615)
Total accumulated depreciation	<u>(1,804,756)</u>	<u>(41,374)</u>	<u>-</u>	<u>(1,846,130)</u>
Total capital assets, being depreciated, net	<u>450,218</u>	<u>4,172</u>	<u>-</u>	<u>454,390</u>
Business-type activities capital assets, net	<u>\$ 807,113</u>	<u>\$ 345,971</u>	<u>\$ -</u>	<u>\$1,153,084</u>

NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2010 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Governmental activities</u>					
Compensated absences	\$ 322,150	\$ 44,789	\$ 58,360	\$ 308,579	\$ 33,486
	<u>\$ 322,150</u>	<u>\$ 44,789</u>	<u>\$ 58,360</u>	<u>\$ 308,579</u>	<u>\$ 33,486</u>
<u>Business-type activities</u>					
Compensated absences	\$ 39,855	\$ 6,314	\$ 25,099	\$ 21,070	\$ 2,134
	<u>\$ 39,855</u>	<u>\$ 6,314</u>	<u>\$ 25,099</u>	<u>\$ 21,070</u>	<u>\$ 2,134</u>

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 Park 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.

NOTE 9 – RETIREMENT PLAN (Continued)

Plan Description (Continued)

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 contribution rates by job class for the Town's regular employees at September 30, 2010; was 10.77% and 23.25% for its special risk employees, respectively. The Town's contributions to FRS for the fiscal years ended September 30, 2010, 2009 and 2008 were \$294,489, \$289,213, and \$242,072, 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 once the former employees become re-employed again.

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 2011. 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.

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

As of September 30, 2010, employee membership data related to the Plan was as follows:

Current retirees:	
Under age 65	5
Over age 65	<u>0</u>
Total current retirees	5
Active employees:	
Active employees fully eligible for benefits	3
Active employees not yet fully eligible for benefits	<u>23</u>
Total active employees	<u>26</u>
Total number of participants	<u><u>31</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 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.

Significant methods and assumptions were as follows:

Actuarial valuation date	4/1/2011
Actuarial cost method	Projected unit credit
Amortization method	Level-dollar payment
Remaining amortization period	10-year open period
Asset valuation method	Unfunded
Actuarial assumptions:	
Investment rate of return	4%*
Healthcare cost trend rate(s):	
	<u>Insurance premiums</u>
Select rates	10% for 2011/2012 graded to 6.00% for 2019/2020
Ultimate rates	5% per annum

* Includes inflation at 2.75%

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

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 Plan members	Pay-as-you-go N/A
Annual Required Contribution	\$ 30,000
Interest on net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>30,000</u>
Interest on Employer Contributions	-
Contributions made*	<u>(12,000)</u>
Increase in net OPEB obligation	18,000
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 18,000</u></u>

*Represents a credit for the implied subsidy

Funded Status and Funding Progress

The funded status of the plan as of April 1, 2011 was as follows:

Actuarial accrued liability	\$ 176,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 176,000
Funded ratio	0%
Covered payroll	\$ 1,574,000
UAAL as a percentage of covered payroll	11.2%

NOTE 11 – COMMITMENTS

Interlocal Agreement: The Town entered into an interlocal agreement with the City of Deerfield Beach, Florida to furnish emergency medical and fire protection services for an annual fee of approximately \$688,000, which includes annual increases based upon the change in the Consumer Price index through September 30, 2010, with a renewal option for an additional three years, unless terminated by either party. Payments are made quarterly to the City of Deerfield Beach, Florida in equal payments of \$172,100.

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.

NOTE 13 – SUBSEQUENT EVENTS

Water Plant Loan Agreement

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 portable 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%. Accrued interest is payable on a monthly basis beginning January 31, 2011, and the Town will pay the bank installments of principal and interest on the last day of each month beginning December 31, 2013, based on the outstanding principal balance divided by 204. The entire loan is repayable in full on December 30, 2030. The loan is secured by the pledged revenues of the water fund which are defined as the gross revenues minus the operating expenses. 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. Subsequent to the year end the Town has drawn down \$50,000 on this facility.

Beach Re-nourishment 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 re-nourishment to the beachfront areas of the Town. The Town will make equal annual payments of principal and interest in the amount of \$695,961.96 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.

Beach Re-nourishment Promissory Note (Continued)

Annual debt service requirements are estimated as follows:

	Principal	Interest	Total
2011	\$ -	\$ -	\$ -
2012	482,368	213,594	695,962
2013	532,453	163,509	695,962
2014	548,533	147,429	695,962
2015	565,099	130,863	695,962
2016-2020	3,092,029	387,781	3,479,810
2021	676,085	20,959	697,044
	<u>\$ 5,896,567</u>	<u>\$ 1,064,135</u>	<u>\$ 6,960,702</u>

Settlement Agreement

During April 2006, the Town entered into an agreement with a Company to mitigate beach erosion by installing Pressure Equalizing Modules ("PEMS") on a one mile section of the beach. The Town subsequently terminated the agreement and a dispute arose between the parties as to the original terms. On January 20, 2011, the Town entered into a final settlement agreement with the Company in the amount of \$105,000 with regard to the removal of PEMS which were originally installed. The Town remitted the payment in full on the same day as the agreement and has recognized a liability for the balance as of September 30, 2010.

NOTE 14 - SUBSEQUENT PRONOUNCEMENTS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

This statement requires the Town to identify amounts that are considered *non-spendable* along with additional classification as restricted, committed, assigned and unassigned based on relative strength of the constraints that control how specific amounts can be spent. This statement is effective for the fiscal year ending, September 30, 2011.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

This statement is intended to improve consistency in the measurement and financial reporting of other post employment benefits (OPEB) such as retiree health insurance. This statement is effective for actuarial evaluations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

GASB Statement No. 59, *Financial Instruments Omnibus*

The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The requirements for Statement 60 are effective for financial statements for periods beginning after December 15, 2011. In general, its provisions are required to be applied retroactively for all periods presented.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*

This statement is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The Statement is effective for financial statements for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The requirements of Statement 62 are effective for financial statements for periods beginning after December 15, 2011.

The Town's management has not yet determined the effect these Statements will have on the Town's financial statements.

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, 2010

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 3,068,245	\$ 3,068,245	\$ 2,989,673	\$ (78,572)
Licenses and permits	48,500	48,500	196,622	148,122
Utility and franchise fees	320,000	320,000	246,086	(73,914)
Intergovernmental	214,500	214,500	221,503	7,003
Fines and forfeitures	14,500	14,500	-	(14,500)
Grant revenue	-	-	52,347	52,347
Interest	15,000	15,000	33,419	18,419
Miscellaneous	1,000	1,000	57,710	56,710
Total revenues	<u>3,681,745</u>	<u>3,681,745</u>	<u>3,797,360</u>	<u>115,615</u>
EXPENDITURES				
Current:				
General government	543,510	447,762	378,661	69,101
Public safety	2,850,665	2,770,481	2,789,886	(19,405)
Physical environment	413,510	680,046	661,490	18,556
Transportation	41,960	41,960	64,476	(22,516)
Building and engineer	42,100	37,203	35,370	1,833
Total expenditures	<u>3,891,745</u>	<u>3,977,452</u>	<u>3,929,883</u>	<u>47,569</u>
Excess (deficiency) of revenues over (under) expenditures	(210,000)	(295,707)	(132,523)	163,184
OTHER FINANCING SOURCES				
Appropriation of prior year's reserves	210,000	210,000	-	(210,000)
Loan proceeds	-	85,707	-	(85,707)
	<u>210,000</u>	<u>295,707</u>	<u>-</u>	<u>(295,707)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(132,523)	<u>\$ (132,523)</u>
Fund balance - beginning			<u>1,564,042</u>	
Fund balance - ending			<u>\$ 1,431,519</u>	

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. The general fund budget for the fiscal year ended September 30, 2010 was amended to increase appropriations and other financing sources by \$85,707. The increase in appropriations is primarily the result of the additional costs incurred related to the beach re-nourishment project and loan proceeds (which did not occur until subsequent to fiscal year end). Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2010.

**TOWN OF HILLSBORO BEACH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010
(UNAUDITED)**

Other Post Employment Benefits

Schedule of Employer Contributions:

Year Ended September 30	Employer Contributions	
	Annual Required Contribution	% Contributed
2010	\$ 30,000	40%
2011	30,000	40%

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%



**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 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, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 29, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying current year findings that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain matters that we reported to management of the Town in a separate letter dated August 29, 2011.

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

Grau & Associates

August 29, 2011



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

To the Town Commission
Town of Hillsboro Beach, Florida

We have audited the accompanying basic financial statements of the Town of Hillsboro Beach, Florida (the "Town") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated August 29, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated August 29, 2011. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters described in Rule 10.550 as required by 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. Prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

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

We wish to thank 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.

Grau & Associates

August 29, 2011

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES

Organization structure

Observation: The size of the Town's accounting and administrative staff precludes certain basic internal controls that would be preferred if the staff were larger and more segregation of duties could be achieved. If cost-effective to the operations, we believe the following practices should be implemented to improve existing internal controls without impairing efficiency:

Internal controls are most effective when the *bank reconciliations are prepared by someone not responsible for entries in the receipt and disbursement records*. We recommend bank reconciliation duties be rotated from time-to-time through the Town's accounting and administrative personnel.

Under current procedures, signed disbursement checks are customarily returned for mailing to the accountant who prepared the checks. Controls over disbursements would be improved if all disbursement checks were transmitted after signature directly to the mail clerk or another individual who is independent from cash disbursement, cash receipting and general ledger funds.

The above-mentioned items require that the Commission continue to be significantly involved in the operations of the Town to provide oversight and an independent review function.

Recommendation: We recommend that the Town develop an accounting policies and procedures manual.

Management response: The Town has implemented new accounting procedures to improve the existing internal controls and achieve better segregation of duties. In addition, the Commission will continue to be significantly involved in the operations of the Town to provide oversight and an independent review function.

Reconcile accounts

Observation: During our audit, we noted that the General Fund had receivable and some liability accounts that continued to carry balances from prior years.

Recommendation: We recommend that the Town properly investigate these asset and liability accounts and reconcile them on a monthly basis.

Management response: The Town will investigate and reconcile all asset and liability accounts on a monthly basis.

Adjusting journal entries

Observation: During the audit, we received several adjusting journal entries from management. Substantially all of the entries were to correct bookkeeping errors or to make accruals and other adjustments that should have been made prior to the start of the audit.

Recommendation: We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and fees.

Management response: The Town has implemented monthly closing procedures to ensure all transactions are evaluated and reviewed. These procedures will expedite the year-end closing and audit process.

REPORT TO MANAGEMENT (Continued)

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS (Continued)

OTHER MATTERS

Develop and distribute employee manual

Observation: We noted that the Town does not have a comprehensive and up-to-date personnel manual and that some employees were not familiar with some basic Town personnel policies and procedures. We recommend that an employee or personnel manual be developed, distributed to employees, and periodically updated as necessary. A comprehensive and up-to-date personnel manual can help communicate, and encourage adherence to, Town policies; prevent possible confusion or misunderstandings among personnel; and provide a measure of liability protection to the Town in case of employee legal challenges of Town actions.

Recommendation: We recommend that the Town have its legal counsel review a draft of the handbook before it is distributed to employees. Subsequent to the audit date, management developed the employee manual, had it approved by the board, but has not distributed the manual.

Management response: The Town has developed a comprehensive and up-to-date employee manual which will be distributed to all employees.

II. PRIOR YEAR FINDINGS AND CURRENT YEAR STATUS AND RECOMMENDATIONS

COMPLIANCE

Budget

Current year status: The issue has been resolved and will not be repeated.

Unclaimed property

Current year status: The issue has been resolved and will not be repeated.

SIGNIFICANT DEFICIENCIES

Organization Structure

Current year status: The issue has not been resolved and will be repeated.

Reconcile accounts

Current year status: The issue has not been resolved and will be repeated.

Adjusting journal entries

Current year status: The issue has not been resolved and will be repeated.

OTHER MATTERS

Develop and distribute employee manual

Current year status: The issue has not been resolved and will be repeated

REPORT TO MANAGEMENT (Continued)

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 significant 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, 2009, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Town complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. 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, 2010, except as noted above.

4. Violations of 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 more than inconsequential.

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, 2010, except as noted above.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

- a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
- b. Deficiencies in internal control that are not significant deficiencies.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported for the fiscal year ended September 30, 2010, except as noted above.

6. The name or official title and legal authority of the Town are disclosed in the notes to the financial statements.
7. 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, 2010 financial audit report.
8. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) 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.