

**TOWN OF HILLSBORO BEACH, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

**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, 2013, 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 the major fund of the Town as of September 30, 2013, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the fiscal year 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2014, 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.

June 2, 2014

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, 2013. 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, 2013, resulting in a net position balance of \$7,475,685.
- The Town's net position decreased by (\$225,130) 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, 2013, the Town's governmental fund reported a total ending fund balance of \$2,804,996, a decrease of (\$17,064) in comparison with the prior year. Of the total fund balance, \$45,391 is non-spendable for prepaid items; \$364,166 is restricted for capital projects, \$100 is assigned related to forfeitures and seizures, and \$2,395,439 is unassigned fund balance which is available for spending at the Town's discretion.
- During fiscal year 2013, the Town implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Please see New Accounting Standards Adopted in Note 2 of the financial statements for additional information.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) Government-wide Financial Statements

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

1) Government-wide Financial Statements (Continued)

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

2) Fund Financial Statement

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

Governmental Funds

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

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

The Town maintains one 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.

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

	NET POSITION SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
Current and other assets	\$ 9,059,721	\$ 10,348,951	\$ 2,525,125	\$ 1,287,960	\$ 11,584,846	\$ 11,636,911
Capital assets, net of depreciation	1,561,059	1,593,519	7,042,324	5,230,815	8,603,383	6,824,334
Total assets	<u>10,620,780</u>	<u>11,942,470</u>	<u>9,567,449</u>	<u>6,518,775</u>	<u>20,188,229</u>	<u>18,461,245</u>
Current liabilities	292,132	825,472	297,474	260,188	589,606	1,085,660
Long-term liabilities	5,324,411	5,853,777	6,798,527	3,820,993	12,122,938	9,674,770
Total liabilities	<u>5,616,543</u>	<u>6,679,249</u>	<u>7,096,001</u>	<u>4,081,181</u>	<u>12,712,544</u>	<u>10,760,430</u>
Net position						
Net investment in capital assets	1,561,059	1,593,519	291,650	2,132,023	1,852,709	3,725,542
Restricted	349,541	324,426	50,289	50,185	399,830	374,611
Unrestricted	3,093,637	3,345,276	2,129,509	255,386	5,223,146	3,600,662
Total net position (deficit)	<u>\$ 5,004,237</u>	<u>\$ 5,263,221</u>	<u>\$ 2,471,448</u>	<u>\$ 2,437,594</u>	<u>\$ 7,475,685</u>	<u>\$ 7,700,815</u>

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

The Town's net position decreased during the most recent fiscal year. The majority of the decrease is a result of the Town paying Hillsboro Island House Condominium Apartments \$160,000 to accept the reconveyance of a bridge with the understanding that the payment was to make current and projected repairs, upgrades and improvements to the Bridge.

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	
	2013	2012 Restated	2013	2012	2013	2012 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 168,179	\$ 7,656,412	\$ 1,181,752	\$ 1,170,087	\$ 1,349,931	\$ 8,826,499
Operating grants and contributions	86,240	1,656,511	-	-	86,240	1,656,511
General revenues:						
Property taxes	3,176,022	3,136,441	-	-	3,176,022	3,136,441
Utility and franchise fees	206,694	216,343	-	-	206,694	216,343
Intergovernmental revenue	212,308	434,877	-	-	212,308	434,877
Unrestricted investment earnings	-	-	4,085	7,872	4,085	7,872
Gain (loss) on the disposition of fixed assets	15,000	-	(47,222)	-	(32,222)	-
Miscellaneous	-	-	60,581	53,565	60,581	53,565
Total revenues	3,864,443	13,100,584	1,199,196	1,231,524	5,063,639	14,332,108
Expenses:						
Governmental activities:						
General government	731,595	559,295	-	-	731,595	559,295
Public safety	2,965,323	2,807,162	-	-	2,965,323	2,807,162
Physical environment	436,537	1,190,790	-	-	436,537	1,190,790
Transportation	72,665	66,035	-	-	72,665	66,035
Culture and recreation	37,006	26,493	-	-	37,006	26,493
Interest expense	155,301	170,771	-	-	155,301	170,771
Business - type activities:						
Water utilities	-	-	890,342	682,646	890,342	682,646
Total expenses	4,398,427	4,820,546	890,342	682,646	5,288,769	5,503,192
Transfers	275,000	275,000	(275,000)	(275,000)	-	-
Change in net position	(258,984)	8,555,038	33,854	273,878	(225,130)	8,828,916
Net position (deficit) - beginning, previously stated	(1,491,486)	(3,291,817)	2,437,594	2,163,716	946,108	(1,128,101)
Prior period adjustment (see Note 2)	6,754,707	-	-	-	6,754,707	-
Net position (deficit) - beginning, as restated	5,263,221	(3,291,817)	2,437,594	2,163,716	7,700,815	(1,128,101)
Net position (deficit), ending	\$ 5,004,237	\$ 5,263,221	\$ 2,471,448	\$ 2,437,594	\$ 7,475,685	\$ 7,700,815

Governmental activities

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2013 was \$4,398,427. These activities were financed through revenues of \$3,864,443 which consist primarily of ad valorem taxes. The decrease in total revenues in fiscal year 2013 is primarily a result of the recognition of the entire 10 year special assessment in fiscal year 2012.

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 operating expenses.

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, 2013.

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of less than expected 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, 2013, the Town had \$2,943,785 invested in land, buildings, infrastructure and machinery and equipment, for its governmental activities. In the government-wide financial statements depreciation of \$1,382,726 has been taken, which resulted in a net book value of \$1,561,059 and the Town's business-type activities reported net capital assets of \$7,042,324. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

CAPITAL DEBT

At September 30, 2013, the Town had a \$4,881,409 loan outstanding for its governmental activities. For business-type activities, the Town had total loans outstanding of \$6,750,674. 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.

In fiscal year 2014, as a result of principal payments starting to become due, debt service for both of the Town's water plant loans will increase by approximately \$580,000.

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, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 423,458	\$ 713,337	\$ 1,136,795
Investments	2,136,036	1,666,118	3,802,154
Accounts receivable, net	74,717	105,203	179,920
Assessments receivable	6,004,353	-	6,004,353
Internal balances	11,600	(11,600)	-
Prepays	45,391	1,778	47,169
Restricted assets:			
Cash	364,166	50,289	414,455
Capital assets:			
Nondepreciable	30,000	-	30,000
Depreciable, net	1,531,059	7,042,324	8,573,383
Total assets	<u>10,620,780</u>	<u>9,567,449</u>	<u>20,188,229</u>
LIABILITIES			
Accounts payable	103,007	150,607	253,614
Accrued liabilities	100,785	-	100,785
Retainage payable	-	143,662	143,662
Accrued interest payable	73,715	3,205	76,920
Customer deposits	14,625	-	14,625
Noncurrent liabilities:			
Due in less than one year:			
Note payable	548,533	276,455	824,988
Compensated absences	31,955	9,860	41,815
Due in more than one year:			
Note payable	4,332,876	6,474,219	10,807,095
Compensated absences	359,047	37,993	397,040
Net OPEB obligation	52,000	-	52,000
Total liabilities	<u>5,616,543</u>	<u>7,096,001</u>	<u>12,712,544</u>
NET POSITION			
Net investment in capital assets	1,561,059	291,650	1,852,709
Restricted	349,541	50,289	399,830
Unrestricted	3,093,637	2,129,509	5,223,146
Total net position	<u>\$ 5,004,237</u>	<u>\$ 2,471,448</u>	<u>\$ 7,475,685</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		Total
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Primary government:						
Governmental activities:						
General government	\$ 731,595	\$ 91,189	\$ -	\$ (640,406)	\$ -	\$ (640,406)
Public safety	2,965,323	-	-	(2,965,323)	-	(2,965,323)
Physical environment	436,537	76,990	86,240	(273,307)	-	(273,307)
Transportation	72,665	-	-	(72,665)	-	(72,665)
Building and engineering	37,006	-	-	(37,006)	-	(37,006)
Interest	155,301	-	-	(155,301)	-	(155,301)
Total governmental activities	<u>4,398,427</u>	<u>168,179</u>	<u>86,240</u>	<u>(4,144,008)</u>	<u>-</u>	<u>(4,144,008)</u>
Business-type activities:						
Water utilities	890,342	1,181,752	-	-	291,410	291,410
Total business-type activities	<u>890,342</u>	<u>1,181,752</u>	<u>-</u>	<u>-</u>	<u>291,410</u>	<u>291,410</u>
Total	<u>5,288,769</u>	<u>1,349,931</u>	<u>86,240</u>	<u>(4,144,008)</u>	<u>291,410</u>	<u>(3,852,598)</u>
General revenues:						
Property taxes				3,176,022	-	3,176,022
Utility and franchise fees				206,694	-	206,694
Intergovernmental revenue				212,308	-	212,308
Unrestricted investment earnings				-	4,085	4,085
Miscellaneous				-	60,581	60,581
Gain (loss) on the disposition of fixed assets				15,000	(47,222)	(32,222)
Transfers in (out)				275,000	(275,000)	-
Total general revenues, special items and transfers				<u>3,885,024</u>	<u>(257,556)</u>	<u>3,627,468</u>
Change in net position				<u>(258,984)</u>	<u>33,854</u>	<u>(225,130)</u>
Net position (deficit) - beginning, previously stated				(1,491,486)	2,437,594	946,108
Prior period adjustment - special assessments (see Note 2)				6,754,707	-	6,754,707
Net position - beginning, as restated				<u>5,263,221</u>	<u>2,437,594</u>	<u>7,700,815</u>
Net position - ending				<u>\$ 5,004,237</u>	<u>\$ 2,471,448</u>	<u>7,475,685</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2013**

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
ASSETS		
Cash	\$ 423,458	\$ 423,458
Investments	2,136,036	2,136,036
Accounts receivable, net	74,717	74,717
Assessments receivable	6,004,353	6,004,353
Due from other funds	11,600	11,600
Prepays	45,391	45,391
Cash-restricted	364,166	364,166
Total assets	<u>\$ 9,059,721</u>	<u>\$ 9,059,721</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 103,007	\$ 103,007
Accrued liabilities	132,740	132,740
Customer deposits	14,625	14,625
Total liabilities	<u>250,372</u>	<u>250,372</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - special assessments	<u>6,004,353</u>	<u>6,004,353</u>
Total deferred inflows of resources	<u>6,004,353</u>	<u>6,004,353</u>
Fund balance:		
Nonspendable:		
Prepaid items	45,391	45,391
Restricted:		
Capital projects	364,166	364,166
Assigned:		
Forfeitures and seizures	100	100
Unassigned	<u>2,395,339</u>	<u>2,395,339</u>
Total fund balance	<u>2,804,996</u>	<u>2,804,996</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,059,721</u>	<u>\$ 9,059,721</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Fund balance - governmental funds		\$ 2,804,996
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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.</p>		
Cost of capital assets	2,943,785	
Accumulated depreciation	<u>(1,382,726)</u>	1,561,059
<p>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.</p>		
		6,004,353
<p>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.</p>		
Net OPEB obligation		(52,000)
Interest payable		(73,715)
Note payable		(4,881,409)
Compensated absences due in more than one year		<u>(359,047)</u>
Net position of governmental activities		<u><u>\$ 5,004,237</u></u>

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, 2013

	<u>Major Fund</u>	<u>Total</u>
	General	Governmental Funds
REVENUES		
Property taxes	\$ 3,176,022	\$ 3,176,022
Special assessments	750,354	750,354
Licenses and permits	91,189	91,189
Utility and franchise fees	206,694	206,694
Intergovernmental	212,308	212,308
Grant revenue	73,855	73,855
Interest	12,385	12,385
Miscellaneous	76,990	76,990
Total revenues	<u>4,599,797</u>	<u>4,599,797</u>
EXPENDITURES		
Current:		
General government	705,778	705,778
Public safety	2,885,150	2,885,150
Physical environment	436,537	436,537
Transportation	72,665	72,665
Building and engineering	37,006	37,006
Debt service:		
Principal payment	532,790	532,790
Interest expense	163,172	163,172
Capital outlay	73,763	73,763
Total expenditures	<u>4,906,861</u>	<u>4,906,861</u>
Excess (deficiency) of revenues over (under) expenditures	(307,064)	(307,064)
OTHER FINANCING SOURCES (USES)		
Proceeds from the sale of capital assets	15,000	15,000
Transfer in from other fund	275,000	275,000
Total other financing sources (uses)	<u>290,000</u>	<u>290,000</u>
Net change in fund balances	(17,064)	(17,064)
Fund balance - beginning	<u>2,822,060</u>	<u>2,822,060</u>
Fund balance - ending	<u>\$ 2,804,996</u>	<u>\$ 2,804,996</u>

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, 2013**

Net change in fund balance - total governmental funds	\$	(17,064)
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.		128,895
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.		(750,354)
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.		532,790
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.		(161,355)
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		233
Change in accrued interest		7,871
Change in net position of governmental activities	\$	<u>(258,984)</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET POSITION - PROPRIETARY FUND
SEPTEMBER 30, 2013**

	Business-Type Activities Enterprise Fund
	Water Utility
ASSETS	
Current assets:	
Cash	\$ 713,337
Investments	1,666,118
Accounts receivable, net	105,203
Prepaid expenses	1,778
Restricted cash	50,289
Total current assets	2,536,725
Noncurrent assets:	
Capital assets:	
Buildings	1,994,315
Distribution system	5,000,426
Plant improvements	572,883
Infrastructure	102,068
Meters	388,983
Vehicles	68,019
Machinery and equipment	109,574
Less accumulated depreciation	(1,193,944)
Total capital assets, net of accumulated depreciation	7,042,324
Total noncurrent assets	7,042,324
Total assets	9,579,049
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	150,607
Retainage payable	143,662
Due to other funds	11,600
Accrued interest payable	3,205
Compensated absences	9,860
Current portion of loan payable	276,455
Total current liabilities	595,389
Noncurrent liabilities:	
Loan payable	6,474,219
Compensated absences	37,993
Total noncurrent liabilities	6,512,212
Total liabilities	7,107,601
NET POSITION	
Net investment in capital assets	291,650
Restricted	50,289
Unrestricted	2,129,509
Total net position	\$ 2,471,448

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, 2013**

	Business-Type Activities Enterprise Fund
	Water Utility
OPERATING REVENUES	
Charges for services	1,181,752
Total operating revenues	1,181,752
OPERATING EXPENSES	
Salaries and benefits	381,309
Operating	325,260
Repairs and maintenance	107,500
Depreciation and amortization	73,068
Total operating expense	887,137
Operating income	294,615
NON OPERATING REVENUES (EXPENSES)	
Interest revenue	4,085
Interest expense	(3,205)
Miscellaneous revenue	60,581
Loss on disposal of capital assets	(47,222)
Total non operating revenue (expenses)	14,239
Income before transfers	308,854
Transfers (out)	(275,000)
Change in net position	33,854
Total net position - beginning	2,437,594
Total net position - ending	\$ 2,471,448

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

	Business-Type Activities Enterprise Fund
	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,170,578
Payments to employees	(373,941)
Payments to suppliers of goods and services	(371,629)
Net cash provided (used) by operating activities	425,008
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous revenue	60,581
Transfer out	(275,000)
Net cash provided (used) by noncapital financing activities	(214,419)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(2,629,783)
Proceeds from long term debt	3,651,882
Net cash provided (used) by capital and related financing activities	1,022,099
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	4,085
Purchases of investments	(803,981)
Net cash provided (used) by investing activities	(799,896)
Net increase (decrease) in cash and cash equivalents	432,792
Cash and cash equivalents - October 1	330,834
Cash and cash equivalents - September 30	\$ 763,626
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 294,615
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	73,068
(Increase) decrease in accounts receivable	(11,174)
(Increase) decrease in prepaids	2,879
Increase (decrease) in accounts payable	50,349
Increase (decrease) in due to other funds	7,903
Increase (decrease) in compensated absences	7,368
Total adjustments	130,393
Net cash provided (used) by operating activities	\$ 425,008
NONCASH INVESTING, CAPITAL OR FINANCING ITEM:	
Interest added to debt	\$ 66,957

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, 2013 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 instalments 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 special assessments were first levied in fiscal year 2012; however, the Town only recognized the first annual installment. Therefore, beginning net position has been adjusted as follows:

	Governmental Activities
Net position (deficit) - beginning, previously stated	\$ (1,491,486)
Prior period adjustment - special assessments	6,754,707
Net position (deficit) - beginning, as restated	<u>\$ 5,263,221</u>

Had the special assessments been recognized in fiscal year 2012 the change in net position of governmental activities for fiscal year 2012 would have been \$8,555,038.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The financial statements of the Town follow the guidance of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) Pronouncements* for both the government-wide and proprietary fund financial statements. The Town has the option of following subsequent private-sector guidance, issued after November 30, 1989, for their business-type activities and enterprise funds that does not conflict or contradict with GASB pronouncements. 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.

New Accounting Standards Adopted

During fiscal year 2013, the Town adopted three new accounting standards as follows:

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

This Statement incorporates into the GASB’s authoritative literature certain guidance that previously could only be found in certain FASB and AICPA pronouncements issued on or before November 30, 1989 and eliminates the selection to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources (previously reported as assets and liabilities) into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Capital Assets (Continued)

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.

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

The statement of net position reports, as applicable, a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. For example, the Town would record deferred outflows of resources 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows/Inflows of Resources (Continued)

The statement of net position reports, as applicable, a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For example, when an asset is recorded in the governmental fund financial statements, but the revenue is not available, the Town reports a deferred inflow of resources 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, 2013:

<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)	\$ 2,106,511	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	29,525	Not rated	*
	<u>2,136,036</u>		
<u>Business-Type Activities</u>			
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	\$ 1,656,025	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	10,093	Not rated	*
	<u>\$ 1,666,118</u>		

* 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").

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 44 days. Fund B is accounted for as a fluctuating NAV pool and the fair value factor for September 30, 2013 was 1.13262284. The Town has multiplied its account balance by the factor to determine the investment balance to be reported. The NAV balance in Fund B was \$39,618 for a net unrealized gain of approximately \$4,639. Due to the nature of the securities in Fund B, the weighted average maturity is not available. The weighted average life of the fund is estimated at 4.04 years. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

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

Interfund transfers for the fiscal year ended September 30, 2013 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, 2013, for the Town’s major fund accounts are as follows:

	General	Water	Total
Intergovernmental	\$ 14,810	\$ -	\$ 14,810
Franchise fee	58,292	-	58,292
Other receivables	1,615	23	1,638
Customer accounts receivable	22,970	143,384	166,354
Gross accounts receivable	97,687	143,407	241,094
Less: Allowance for uncollectible accounts	(22,970)	(38,204)	(61,174)
Accounts receivable, net	<u>\$ 74,717</u>	<u>\$ 105,203</u>	<u>\$ 179,920</u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013 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	874,825	128,895	65,792	937,928
Improvements other than buildings	164,034	-	-	164,034
Total capital assets, being depreciated	<u>2,850,682</u>	<u>128,895</u>	<u>65,792</u>	<u>2,913,785</u>
Less accumulated depreciation for:				
Buildings	(480,816)	(35,086)	-	(515,902)
Machinery and equipment	(715,725)	(111,997)	(65,792)	(761,930)
Improvements other than buildings	(90,622)	(14,272)	-	(104,894)
Total accumulated depreciation	<u>(1,287,163)</u>	<u>(161,355)</u>	<u>(65,792)</u>	<u>(1,382,726)</u>
Total capital assets, being depreciated, net	<u>1,563,519</u>	<u>(32,460)</u>	<u>-</u>	<u>1,531,059</u>
Governmental activities capital assets, net	<u>\$ 1,593,519</u>	<u>\$ (32,460)</u>	<u>\$ -</u>	<u>\$ 1,561,059</u>

Depreciation is allocated as follows:

General government	\$ 25,817
Public safety	135,538
	<u>\$ 161,355</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	\$ 4,736,149	\$ -	\$ 4,736,149	\$ -
Total capital assets, not being depreciated	<u>4,736,149</u>	<u>-</u>	<u>4,736,149</u>	<u>-</u>
Capital assets, being depreciated				
Buildings	365,101	1,794,089	164,875	1,994,315
Distribution system	1,464,295	4,236,050	699,919	5,000,426
Plant improvements	19,748	553,135	-	572,883
Infrastructure	102,068	-	-	102,068
Meters	344,380	44,603	-	388,983
Vehicles	94,784	17,430	44,195	68,019
Machinery and equipment	84,833	24,741	-	109,574
Total capital assets, being depreciated	<u>2,475,209</u>	<u>6,670,048</u>	<u>908,989</u>	<u>8,236,268</u>
Less accumulated depreciation for:				
Buildings	(243,019)	(10,011)	(116,207)	(136,823)
Distribution system, plant improvements, and infrastructure	(1,443,070)	(13,205)	(699,265)	(757,010)
Meters, Vehicles, Machinery & Equipment	(294,454)	(49,852)	(44,195)	(300,111)
Total accumulated depreciation	<u>(1,980,543)</u>	<u>(73,068)</u>	<u>(859,667)</u>	<u>(1,193,944)</u>
Total capital assets, being depreciated, net	<u>494,666</u>	<u>6,596,980</u>	<u>49,322</u>	<u>7,042,324</u>
Business-type activities capital assets, net	<u>\$ 5,230,815</u>	<u>\$6,596,980</u>	<u>\$ 4,785,471</u>	<u>\$7,042,324</u>

In fiscal year 2013, the Town incurred a total of \$129,223 of interest costs related to its business-type activities, \$126,018 of which was capitalized.

NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Governmental activities</u>					
Beach note	\$ 5,414,199	\$ -	\$ 532,790	\$ 4,881,409	\$ 548,533
Compensated absences	387,578	164,885	161,461	391,002	31,955
	<u>\$ 5,801,777</u>	<u>\$ 164,885</u>	<u>\$ 694,251</u>	<u>\$ 5,272,411</u>	<u>\$ 580,488</u>
<u>Business-type activities</u>					
Water plant loan ("BOA")	\$ 3,098,792	\$ 554,699	\$ -	\$ 3,653,491	\$ 179,089
Water plant loan ("SRF")	-	3,097,183	-	3,097,183	97,366
Compensated absences	40,485	21,565	14,197	47,853	9,860
	<u>\$ 3,139,277</u>	<u>\$ 3,673,447</u>	<u>\$ 14,197</u>	<u>\$ 6,798,527</u>	<u>\$ 286,315</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, 2013, the scheduled debt service requirements on the beach renourishment promissory note were as follows:

	Principal	Interest	Total
2014	\$ 548,533	\$ 147,429	\$ 695,962
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
2019-2021	1,968,007	120,083	2,088,090
	<u>\$ 4,881,409</u>	<u>\$ 686,491</u>	<u>\$ 5,567,900</u>

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%. 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. As of September 30, 2013, the Town has drawn down \$3,653,491 on this facility.

At September 30, 2013, the scheduled debt service requirements on water plant loan “BOA” were as follows:

	Principal	Interest	Total
2014	\$ 179,089	\$ 58,522	\$ 237,611
2015	214,907	58,522	273,429
2016	214,907	58,522	273,429
2017	214,907	58,522	273,429
2018	214,907	58,522	273,429
2019-2023	1,074,535	292,611	1,367,146
2024-2028	1,074,535	292,611	1,367,146
2029-2031	465,704	126,798	592,502
	<u>\$ 3,653,491</u>	<u>\$ 1,004,630</u>	<u>\$ 4,658,121</u>

NOTE 8 – LONG-TERM LIABILITIES (Continued)

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. 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, 2013, the Town owes \$3,097,183 on this loan which includes interest added to debt of \$66,957.

At September 30, 2013, the scheduled debt service requirements on water plant loan “SRF” were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	97,366	76,039	173,405
2015	126,054	71,838	197,892
2016	129,123	68,769	197,892
2017	132,267	65,625	197,892
2018	135,487	62,405	197,892
2019-2023	728,549	260,908	989,457
2024-2028	821,662	167,796	989,458
2029-2033	926,675	62,783	989,458
Total	3,097,183	836,163	3,933,346

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.

NOTE 9 – RETIREMENT PLAN (Continued)

Plan Description (Continued)

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, 2013; was 6.95%. The rate for its special risk employees was 19.06%. 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, 2013, 2012 and 2011 were \$213,187, \$174,314, and \$268,362, 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, 2013, 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>

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

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.

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

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.

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

Annual OPEB Cost (Continued)

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>43,000</u>
Net OPEB obligation - end of year	<u><u>\$ 52,000</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	\$ 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 Agreement

On January 10, 2012, the Town has an interlocal agreement with the City of Deerfield Beach, Florida to furnish emergency medical and fire protection services. The agreement has 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 \$637,774.

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, 2013

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 3,212,262	\$ 3,176,022	\$ (36,240)
Special assessments	750,523	750,354	(169)
Licenses and permits	129,000	91,189	(37,811)
Utility and franchise fees	230,000	206,694	(23,306)
Intergovernmental	220,640	212,308	(8,332)
Grant revenue	229,600	73,855	(155,745)
Interest	8,000	12,385	4,385
Miscellaneous	46,500	76,990	30,490
Total revenues	<u>4,826,525</u>	<u>4,599,797</u>	<u>(226,728)</u>
EXPENDITURES			
Current:			
General government	523,605	705,778	(182,173)
Public safety	2,977,523	2,885,150	92,373
Physical environment	813,535	436,537	376,998
Transportation	67,800	72,665	(4,865)
Building and engineer	28,100	37,006	(8,906)
Debt service:			
Principal payment	482,368	532,790	(50,422)
Interest expense	213,594	163,172	50,422
Capital outlay	-	73,763	(73,763)
Total expenditures	<u>5,106,525</u>	<u>4,906,861</u>	<u>199,664</u>
Excess (deficiency) of revenues over (under) expenditures	(280,000)	(307,064)	(27,064)
OTHER FINANCING SOURCES			
Proceeds from the sale of capital assets	5,000	15,000	10,000
Transfers in	275,000	275,000	-
	<u>280,000</u>	<u>290,000</u>	<u>10,000</u>
Net change in fund balance	<u>\$ -</u>	<u>(17,064)</u>	<u>\$ (17,064)</u>
Fund balance - beginning		<u>2,822,060</u>	
Fund balance - ending		<u>\$ 2,804,996</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. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2013.

The variance between budgeted and actual general fund revenues for the current fiscal year is mainly the result of less than expected 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, 2013**

Other Post Employment Benefits

Schedule of Employer Contributions:

Year Ended September 30	Employer Contributions	
	Annual Required Contribution	% Contributed
2011	\$ 30,000	40%
2012	18,000	39%
2013	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, 2013, 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 2, 2014, which includes an emphasis of matter paragraph.

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*.

We noted a matter involving the internal control over financial reporting and compliance that we have reported to management of the Town in a separate letter dated June 2, 2014.

The Town's response to the finding identified in our audit is described in the accompanying Management Letter. We did not audit the Town's response and, accordingly, we express no opinion on them.

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 2, 2014



**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, 2013, and have issued our report thereon dated June 2, 2014, which includes an emphasis of matter paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. 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 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* dated June 2, 2014. 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.**

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 members of 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 2, 2014

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2013-01 Disbursement Controls:

Observation: During our procedures to test internal controls over disbursements, we noted two canceled checks that had only one authorized signatory. The Town's policy is that each check should be signed by two authorized signatories.

Recommendation: The Town should review its disbursements control policy and ensure that it is consistently followed.

Management Response: The Town has reviewed the disbursement control policies with the staff to ensure it is followed consistently.

II. PRIOR YEAR FINDINGS AND CURRENT YEAR STATUS

2012-01 Fixed Asset Tracking

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, 2012, 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, 2013, except as noted above.

4. 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, 2013, except as noted above.

REPORT TO MANAGEMENT (Continued)

5. The name or official title and legal authority of the Town are disclosed in the notes to the financial statements.
6. 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, 2013 financial audit report.
7. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. 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.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Town Commission
Town of Hillsboro Beach, Florida

Report on Compliance for Each Major Federal Program

We have audited the Town of Hillsboro Beach, Florida's (the "Town") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the fiscal year ended September 30, 2013. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

June 2, 2014

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TOWN OF HILLSBORO BEACH, FLORIDA
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Homeland Security Pass-Through Program From:			
State of Florida Department of Community Affairs			
Disaster Grants - Public Assistance	97.036	52600308	\$ 101,900
<i>Total Department of Homeland Security</i>			<u>101,900</u>
Environmental Protection Agency Pass-Through Program From:			
Florida Department of Environmental Protection			
ARRA - Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS98452211-0	1,721,109
<i>Total Environmental Protection Agency</i>			<u>1,721,109</u>
Department of Justice Pass-Through Program From:			
State of Florida Department of Law Enforcement			
Edward Byne Memorial Justice Assistance Grant Program	16.738	2013-JAGD-BROW-7- D8-076	1,190
Bulletproof Vest Partnership Program	16.607	2012BUBX12060948	1,985
<i>Total Department of Justice</i>			<u>3,175</u>
			<u>\$ 1,826,184</u>

See Notes to Schedule of Expenditures of Federal Awards

**TOWN OF HILLSBORO BEACH, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Hillsboro Beach and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**TOWN OF HILLSBORO BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Town.
2. No significant deficiency relating to the audit of the financial statements are reported in the 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*.
3. There were no instances of noncompliance material to the financial statements of the Town that were disclosed during the audit.
4. No significant deficiency relating to the audit of the major federal programs are reported in the report on compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal program for the Town expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award program for the Town.
7. Dollar threshold for Type A programs was \$300,000. The programs tested as major programs include:

<u>Federal Program</u>	<u>CFDA No.</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468

8. The Town was not considered to be a low-risk auditee pursuant to OMB Circular A-133.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2013-01 Disbursement Controls:

Observation: During our procedures to test internal controls over disbursements, we noted two canceled checks that had only one authorized signatory. The Town's policy is that each check should be signed by two authorized signatories.

Recommendation: The Town should review its disbursements control policy and ensure that it is consistently followed.

Management Response: The Town has reviewed the disbursement control policies with the staff to ensure it is followed consistently.

**TOWN OF HILLSBORO BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013
(Continued)**

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2012-01 Fixed Asset Tracking:

Status: Recommendation was implemented.

2012-02 Completion of Single Audit (CFDA No. 97.036):

Status: Recommendation was implemented.

2012-03 Submission of Certification of Applicability to Single Audit Act Reporting (CFDA No. 66.468) :

Status: Recommendation was implemented.