

**TOWN OF HILLSBORO BEACH, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2017**

**YEAR  
TWO**

**TOWN OF HILLSBORO BEACH, FLORIDA  
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**Grau & Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280  
Boca Raton, Florida 33431  
(561) 994-9299 • (800) 299-4728  
Fax (561) 994-5823  
www.graucpa.com

**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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town as of September 30, 2017, 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.

**YEAR  
TWO**

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required supplementary information as shown in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

### **Report on Other Legal and Regulatory Requirements**

We have also issued our report dated June 28, 2018, on our consideration of the Town's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

*B. Shaw & Associates*

June 28, 2018

## 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, 2017. Please read it in conjunction with the Town's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2017, resulting in a net position balance of \$6,592,931.
- The Town's net position decreased by (\$227,566) 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, 2017, the Town's governmental fund reported a total ending fund balance of \$4,853,266, a decrease of (\$180,250) in comparison with the prior year. Of the total fund balance, \$55,182 is non-spendable for prepaid items; \$367,908 is restricted for capital projects, \$4,192 is assigned related to forfeitures and seizures, \$54,041 is assigned to reserves-beach restoration, \$513,593 is assigned to reserves-beach assessment, \$400,000 to subsequent years expenditures, and \$3,458,350 is unassigned fund balance which is available for spending at the Town's discretion.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### 1) Government-wide Financial Statements

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

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

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

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

### 2) Fund Financial Statement

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

#### Governmental Funds

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

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

The Town maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund.

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

#### Proprietary Funds

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

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

### 3) Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

	NET POSITION					
	SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 8,402,050	\$ 9,402,061	\$ 1,687,563	\$ 1,156,424	\$ 10,089,613	\$ 10,558,485
Capital assets, net of depreciation	1,320,906	1,337,098	5,985,549	6,003,085	7,306,455	7,340,183
Total assets	9,722,956	10,739,159	7,673,112	7,159,509	17,396,068	17,898,668
Deferred outflows of resources	1,544,269	1,361,999	74,218	61,323	1,618,487	1,423,322
Current liabilities	547,272	439,303	321,921	69,055	869,193	508,358
Long-term liabilities	6,724,778	6,898,673	4,613,642	4,876,021	11,338,420	11,774,694
Total liabilities	7,272,050	7,337,976	4,935,563	4,945,076	12,207,613	12,283,052
Deferred inflows of resources	228,460	232,597	(14,449)	(14,156)	214,011	218,441
Net position						
Net investment in capital assets	1,320,906	1,337,098	1,672,464	1,395,732	2,993,370	2,732,830
Restricted	359,783	358,326	-	-	359,783	358,326
Unrestricted	2,086,026	2,835,161	1,153,752	894,180	3,239,778	3,729,341
Total net position	\$ 3,766,715	\$ 4,530,585	\$ 2,826,216	\$ 2,289,912	\$ 6,592,931	\$ 6,820,497

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 253,375	\$ 399,205	\$ 1,704,947	\$ 1,566,308	\$ 1,958,322	\$ 1,965,513
Operating grants and contributions	82,919	124,105	-	-	82,919	124,105
General revenues:						
Property taxes	3,998,281	3,528,514	-	-	3,998,281	3,528,514
Utility and franchise fees	227,182	219,854	-	-	227,182	219,854
Intergovernmental revenue	244,636	241,539	-	-	244,636	241,539
Unrestricted investment earnings	-	-	10,314	18,030	10,314	18,030
Gain (loss) on the disposition of fixed assets	6,000	-	-	-	6,000	-
Miscellaneous	18,541	-	67,603	62,856	86,144	62,856
Total revenues	4,830,934	4,513,217	1,782,864	1,647,194	6,613,798	6,160,411
Expenses:						
Governmental activities:						
General government	832,304	701,759	-	-	832,304	701,759
Public safety	3,569,647	3,441,503	-	-	3,569,647	3,441,503
Physical environment	970,416	624,565	-	-	970,416	624,565
Transportation	85,820	87,917	-	-	85,820	87,917
Building and engineering	99,559	113,229	-	-	99,559	113,229
Interest expense	87,058	105,017	-	-	87,058	105,017
Business - type activities:						
Water utilities	-	-	1,196,560	1,424,654	1,196,560	1,424,654
Total expenses	5,644,804	5,073,990	1,196,560	1,424,654	6,841,364	6,498,644
Transfers	50,000	50,000	(50,000)	(50,000)	-	-
Change in net position	(763,870)	(510,773)	536,304	172,540	(227,566)	(338,233)
Net position - beginning	4,530,585	5,041,358	2,289,912	2,117,372	6,820,497	7,158,730
Net position - ending	\$ 3,766,715	\$ 4,530,585	\$ 2,826,216	\$ 2,289,912	\$ 6,592,931	\$ 6,820,497

**Governmental activities**

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2017 was \$5,644,804. These activities were financed through revenues of \$4,830,934, which consist primarily of ad valorem taxes. The increase in total revenues in fiscal year 2017 is primarily the result of the increase in property taxes in the current fiscal year. The increase in current fiscal year expenses is mainly due to the increase in professional services, including attorney and engineering fees related to the beach re-nourishment project.

**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 decreased in the current year mainly as a result of a decrease in professional services.

## GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the Town pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Commission. The general fund budget for the fiscal year ended September 30, 2017 was amended to increase revenues by \$387,952 and increase appropriations by \$521,765. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2017.

## CAPITAL ASSETS

At September 30, 2017, the Town had \$3,039,211 invested in capital assets for its governmental activities. In the government-wide financial statements depreciation of \$1,718,305 has been taken, which resulted in a net book value of \$1,320,906 and the Town's business-type activities reported net capital assets of \$5,985,549. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

## CAPITAL DEBT

At September 30, 2017, the Town had a \$2,585,864 loan outstanding for its governmental activities. For business-type activities, the Town had a loan outstanding of \$4,313,085. More detailed information about the Town's capital debt is presented in the notes of the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

## REQUESTS FOR INFORMATION

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

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town's finance department c/o Inframark Infrastructure Management Services, 210 N. University Drive, Suite 702, Coral Springs, Florida 33071. Telephone 954-603-0033.

**TOWN OF HILLSBORO BEACH, FLORIDA**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash	\$ 2,145,964	\$ 676,723	\$ 2,822,687
Investments	2,699,743	819,594	3,519,337
Accounts receivable, net	104,019	180,737	284,756
Assessments receivable	3,000,849	-	3,000,849
Interest receivable	156	-	156
Intergovernmental receivables	28,229	-	28,229
Inventory	4,058	-	4,058
Prepays	51,124	10,509	61,633
Restricted assets:			
Cash	367,908	-	367,908
Capital assets:			
Nondepreciable	30,000	296,125	326,125
Depreciable, net	1,290,906	5,689,424	6,980,330
Total assets	<u>9,722,956</u>	<u>7,673,112</u>	<u>17,396,068</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension	<u>1,544,269</u>	<u>74,218</u>	<u>1,618,487</u>
<b>LIABILITIES</b>			
Accounts payable	251,062	292,847	543,909
Accrued liabilities	249,033	-	249,033
Retainage payable	-	24,000	24,000
Accrued interest payable	39,052	5,074	44,126
Customer deposits	8,125	-	8,125
Noncurrent liabilities:			
Due in less than one year:			
Note payable	617,870	301,432	919,302
Compensated absences	21,174	-	21,174
Due in more than one year:			
Note payable	1,967,994	4,011,653	5,979,647
Compensated absences	325,826	45,513	371,339
Net OPEB obligation	91,000	-	91,000
Net pension liability	3,700,914	255,044	3,955,958
Total liabilities	<u>7,272,050</u>	<u>4,935,563</u>	<u>12,207,613</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension	<u>228,460</u>	<u>(14,449)</u>	<u>214,011</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,320,906	1,672,464	2,993,370
Restricted	359,783	-	359,783
Unrestricted	2,086,026	1,153,752	3,239,778
Total net position	<u>\$ 3,766,715</u>	<u>\$ 2,826,216</u>	<u>\$ 6,592,931</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 832,304	\$ 212,303	\$ -	\$ (620,001)	\$ -	\$ (620,001)
Public safety	3,569,647	-	-	(3,569,647)	-	(3,569,647)
Physical environment	970,416	33,958	82,919	(853,539)	-	(853,539)
Transportation	85,820	-	-	(85,820)	-	(85,820)
Building and engineering	99,559	-	-	(99,559)	-	(99,559)
Interest	87,058	7,114	-	(79,944)	-	(79,944)
Total governmental activities	<u>5,644,804</u>	<u>253,375</u>	<u>82,919</u>	<u>(5,308,510)</u>	<u>-</u>	<u>(5,308,510)</u>
Business-type activities:						
Water utilities	1,196,560	1,704,947	-	-	508,387	508,387
Total business-type activities	<u>1,196,560</u>	<u>1,704,947</u>	<u>-</u>	<u>-</u>	<u>508,387</u>	<u>508,387</u>
<b>Total</b>	<u>6,841,364</u>	<u>1,958,322</u>	<u>82,919</u>	<u>(5,308,510)</u>	<u>508,387</u>	<u>(4,800,123)</u>
General revenues:						
Property taxes				3,998,281	-	3,998,281
Utility and franchise fees				227,182	-	227,182
Intergovernmental revenue				244,636	-	244,636
Unrestricted investment earnings				-	10,314	10,314
Miscellaneous				18,541	67,603	86,144
Gain (loss) on the disposition of fixed assets				6,000	-	6,000
Transfers in (out)				50,000	(50,000)	-
Total general revenues and transfers				<u>4,544,640</u>	<u>27,917</u>	<u>4,572,557</u>
Change in net position				(763,870)	536,304	(227,566)
Net position - beginning				4,530,585	2,289,912	6,820,497
Net position - ending				<u>\$ 3,766,715</u>	<u>\$ 2,826,216</u>	<u>\$ 6,592,931</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUND  
SEPTEMBER 30, 2017**

	Major Fund General	Total Governmental Funds
<b>ASSETS</b>		
Cash	\$ 2,145,964	\$ 2,145,964
Investments	2,699,743	2,699,743
Interest receivable	156	156
Accounts receivable, net	104,019	104,019
Assessments receivable	3,000,849	3,000,849
Intergovernmental receivable	28,229	28,229
Inventory	4,058	4,058
Prepays	51,124	51,124
Cash-restricted	367,908	367,908
Total assets	\$ 8,402,050	\$ 8,402,050
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
Liabilities:		
Accounts payable	\$ 251,062	\$ 251,062
Accrued liabilities	270,207	270,207
Customer deposits	8,125	8,125
Total liabilities	529,394	529,394
Deferred inflows of resources:		
Unavailable revenue - special assessments	3,000,849	3,000,849
Unavailable revenue - miscellaneous	18,541	18,541
Total deferred inflows of resources	3,019,390	3,019,390
Fund balance:		
Nonspendable:		
Prepaid items	55,182	55,182
Restricted:		
Capital projects	367,908	367,908
Assigned:		
Forfeitures and seizures	4,192	4,192
Reserves - beach restoration	54,041	54,041
Reserves - beach assessment	513,593	513,593
Subsequent years expenditures	400,000	400,000
Unassigned	3,458,350	3,458,350
Total fund balance	4,853,266	4,853,266
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,402,050	\$ 8,402,050

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, 2017**

Fund balance - governmental funds		\$ 4,853,266
<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	3,039,211	
Accumulated depreciation	<u>(1,718,305)</u>	1,320,906
<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>		
		3,019,390
<p>Deferred outflows of resources related to pensions are recorded in the statement of net position.</p>		
		1,544,269
<p>Deferred inflows of resources related to pensions are recorded in the statement of net position.</p>		
		(228,460)
<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		(91,000)
Net pension liability		(3,700,914)
Interest payable		(39,052)
Note payable		(2,585,864)
Compensated absences due in more than one year		<u>(325,826)</u>
Net position of governmental activities		<u>\$ 3,766,715</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, 2017**

	Major Fund General	Total Governmental Funds
<b>REVENUES</b>		
Property taxes	\$ 4,202,257	\$ 4,202,257
Special assessments	757,781	757,781
Licenses and permits	212,303	212,303
Utility and franchise fees	227,182	227,182
Intergovernmental	244,636	244,636
Grant revenue	49,688	49,688
Interest	33,231	33,231
Miscellaneous	33,958	33,958
Total revenues	5,761,036	5,761,036
<b>EXPENDITURES</b>		
Current:		
General government	797,526	797,526
Public safety	3,244,600	3,244,600
Physical environment	967,902	967,902
Transportation	85,820	85,820
Building and engineering	99,559	99,559
Debt service:		
Principal payment	599,949	599,949
Interest expense	96,013	96,013
Capital outlay	99,917	99,917
Total expenditures	5,991,286	5,991,286
Excess (deficiency) of revenues over (under) expenditures	(230,250)	(230,250)
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfer in from other fund	50,000	50,000
Total other financing sources (uses)	50,000	50,000
Net change in fund balances	(180,250)	(180,250)
Fund balance - beginning	5,033,516	5,033,516
Fund balance - ending	\$ 4,853,266	\$ 4,853,266

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA  
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net change in fund balance - total governmental funds	\$ (180,250)
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.	105,917
Certain revenues were unavailable 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.	(954,643)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund financial statements.	18,541
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.	599,949
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(122,109)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The details of the differences are as follows:	
Pension expense	(224,484)
Change in compensated absence	(6,746)
Change in other post employment benefit obligation	(9,000)
Change in accrued interest	8,955
Change in net position of governmental activities	\$ (763,870)

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
SEPTEMBER 30, 2017**

	Enterprise Fund
	Water Utility
<b>ASSETS</b>	
Current assets:	
Cash	\$ 676,723
Investments	819,594
Accounts receivable, net	180,737
Prepaid expenses	10,509
Total current assets	1,687,563
Noncurrent assets:	
Capital assets:	
Construction in progress	296,125
Buildings	1,994,315
Distribution system	5,003,316
Plant improvements	608,583
Infrastructure	102,068
Meters	406,620
Vehicles	68,019
Machinery and equipment	136,718
Less accumulated depreciation	(2,630,215)
Total capital assets, net	5,985,549
Total noncurrent assets	5,985,549
Total assets	7,673,112
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension	74,218
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	292,847
Retainage payable	24,000
Accrued interest payable	5,074
Current portion of loan payable	301,432
Total current liabilities	623,353
Noncurrent liabilities:	
Loan payable	4,011,653
Compensated absences	45,513
Net pension liability	255,044
Total noncurrent liabilities	4,312,210
Total liabilities	4,935,563
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	(14,449)
<b>NET POSITION</b>	
Net investment in capital assets	1,672,464
Unrestricted	1,153,752
Total net position	\$ 2,826,216

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, 2017**

	<u>Enterprise Fund Water Utility</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,704,947
Total operating revenues	<u>1,704,947</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	439,595
Operating	224,608
Repairs and maintenance	65,286
Depreciation and amortization	<u>357,343</u>
Total operating expense	<u>1,086,832</u>
Operating income	<u>618,115</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	10,314
Interest expense	(109,728)
Miscellaneous revenue	<u>67,603</u>
Total non operating revenue (expenses)	<u>(31,811)</u>
Income before transfers	586,304
Transfers (out)	<u>(50,000)</u>
Change in net position	536,304
Net position - beginning	<u>2,289,912</u>
Net position - ending	<u>\$ 2,826,216</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	Enterprise Fund <u>Water Utility</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 1,698,089
Payments to employees	(420,894)
Payments to suppliers of goods and services	(64,199)
Net cash provided (used) by operating activities	<u>1,212,996</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Miscellaneous revenue	67,603
Transfer out	(50,000)
Net cash provided (used) by noncapital financing activities	<u>17,603</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchases of capital assets	(315,807)
Principal paid	(294,268)
Interest paid	(111,416)
Net cash provided (used) by capital and related financing activities	<u>(721,491)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest earnings	10,314
Purchase of investments	(155,305)
Net cash provided (used) by investing activities	<u>(144,991)</u>
Net increase (decrease) in cash and cash equivalents	364,117
Cash and cash equivalents - October 1	<u>312,606</u>
Cash and cash equivalents - September 30	<u>\$ 676,723</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 618,115
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	357,343
FRS/HIS pension expense	15,882
(Increase) decrease in accounts receivable	(6,858)
(Increase) decrease in prepaids	(4,859)
Increase (decrease) in accounts payable	230,554
Increase (decrease) in compensated absences	2,819
Total adjustments	<u>594,881</u>
Net cash provided (used) by operating activities	<u>\$ 1,212,996</u>

See notes to the financial statements

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

**NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY**

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

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Government-Wide and Fund Financial Statements**

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

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

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

#### Property Taxes

Property taxes are ad valorem and levied each November 1 on property as of the previous January 1. The Broward County, Florida Tax Collector's Office bills and collects ad valorem taxes on behalf of the Town. The ad valorem tax rate for fiscal year ended September 30, 2017 was \$3.50 per \$1,000 of assessed taxable property value. Ad valorem taxes are due for payment on March 31 and become delinquent April 1. Tax certificates are sold to satisfy liens on delinquent assessments in July. Property taxes relating to the current budget and collected within 60 days after the year end of the budget period are recognized as revenue.

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

#### Special Assessments and Assessments Receivable

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

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

The Town reports the following major governmental fund:

#### General Fund

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

The Town reports the following major proprietary fund:

#### Water Fund

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

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

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

### **Assets, Liabilities and Net Position or Equity**

#### Restricted Assets

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

#### Deposits and Investments

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

The Town has adopted a written investment policy, which complies with the requirements of Section 218.415 Florida Statutes. All investments comply with the requirements of the written investment policy. 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) U.S. Government Securities;
- c) Bonds, debentures, notes or callable issued or guaranteed by U.S. Government Agencies provided they are backed by the full faith and credit of the United States;
- d) Bonds, debentures, notes or callable issued or guaranteed by U.S. Government sponsored agencies;
- e) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- f) Interest bearing time deposits or savings accounts in qualified public depositories;
- g) Repurchase agreement;
- h) Commercial paper of any U.S. company that is rated, at the time of purchase, Prime-1 by Moody's and A-1 by Standard & Poor's. If commercial paper is backed by a letter of credit (LOC), the LOC must be rated A or better by at least two national rating agencies;
- i) Corporate notes that have a minimum rating, at the time of purchase, of Aa by Moody's and AA by Standard & Poor's;
- j) State or local government taxable or tax-exempt debt rated at least Aa by Moody's and AA by Standard & Poor's;
- k) Banker's acceptances issued by a domestic bank or a federally chartered domestic office of a foreign banks office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, "P- 1" by Moody's Investors Services and "A-1" Standard & Poor's.

In addition, surplus may be deposited into certificates of deposit which are insured.

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

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities and Net Position or Equity (Continued)

#### Inventories and Prepaid Items

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

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

#### Receivables and Payables

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

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

#### Capital Assets

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

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

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

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

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

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

#### Unearned Revenue

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

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities and Net Position or Equity (Continued)

#### Compensated Absences

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

#### Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Premiums and discounts are deferred and amortized ratably over the life of the loan. Long-term obligations are reported net of applicable premiums or discounts. Issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### Deferred Outflows/Inflows of Resources

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

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

#### Fund Equity/Net Position

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

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

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

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

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Assets, Liabilities and Net Position or Equity (Continued)**

#### **Fund Equity/Net Position (Continued)**

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

## **NOTE 4 – DEPOSITS AND INVESTMENTS**

### **Deposits**

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

**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

The Town's investments were held as follows at September 30, 2017:

Investment	Amortized cost	Fair Value	Level	Credit Rating	Maturities
Certificates of Deposits	\$ 100,723	\$ -	N/A	Not rated	11/4/2017
	<u>100,723</u>				
Corporate Bonds		814,584	2	AA- to AAA	12/5/2017 - 6/17/2020
Municipal Bonds		785,150	2	AA to AA+	7/1/2018 - 7/1/2020
US Treasuries		255,028	2	Not rated	4/30/2018 - 4/15/2019
Federal National Mortgage Association		446,982	2	AA+	12/20/2017 - 8/24/2021
Federal Home Loan Mortgage Corp		742,977	2	AA+	12/19/2017 - 12/9/2022
Federal Farm Credit Bank		<u>373,893</u>	2	AA+	12/18/2017 - 11/9/2018
		<u>3,418,614</u>			
Total Investments	\$ 100,723	\$ 3,418,614			

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

The Town's investments are held by a third party custodian and held in the Town's name.

*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's policy limits the amount the Town may invest in any one issuer for certain investments types.

*Interest rate risk* – The Town's policy limits investment maturities by investment type as a means of managing exposure to fair value losses arising from increasing interest rates.

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

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

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

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

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

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

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended September 30, 2017 were as follows:

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

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

**NOTE 6 – RECEIVABLES**

Receivables at September 30, 2017, for the Town's major fund accounts are as follows:

	General	Water	Total
State of Florida	\$ 16,034	\$ -	\$ 16,034
Franchise fee	65,615	-	65,615
Broward County	11,741	-	11,741
Other receivables	65,086	22,311	87,397
Customer accounts receivable	-	183,156	183,156
Gross accounts receivable	158,476	205,467	363,943
Less: Allowance for uncollectible accounts	(26,072)	(24,730)	(50,802)
Accounts receivable, net	\$ 132,404	\$ 180,737	\$ 313,141

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the governmental activities for the fiscal year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	30,000	-	-	30,000
Capital assets, being depreciated				
Buildings	1,811,823	25,094	(3,137)	1,833,780
Machinery and equipment	948,381	80,823	(28,234)	1,000,970
Improvements other than buildings	174,461	-	-	174,461
Total capital assets, being depreciated	2,934,665	105,917	(31,371)	3,009,211
Less accumulated depreciation for:				
Buildings	621,160	34,308	(3,137)	652,331
Machinery and equipment	874,469	75,736	(28,234)	921,971
Improvements other than buildings	131,938	12,065	-	144,003
Total accumulated depreciation	1,627,567	122,109	(31,371)	1,718,305
Total capital assets, being depreciated, net	1,307,098	(16,192)	-	1,290,906
Governmental activities capital assets, net	\$ 1,337,098	\$ (16,192)	\$ -	\$ 1,320,906

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

General government	\$ 19,537
Public safety	102,572
	\$ 122,109

## NOTE 7 – CAPITAL ASSETS (Continued)

Capital asset activity for the business-type activities for the fiscal year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 296,125	\$ -	\$ 296,125
Total capital assets, not being depreciated	-	296,125	-	296,125
Capital assets, being depreciated				
Buildings	1,994,315	-	-	1,994,315
Distribution system	5,003,316	-	-	5,003,316
Plant improvements	608,583	-	-	608,583
Infrastructure	102,068	-	-	102,068
Meters	388,983	17,637	-	406,620
Vehicles	68,019	-	-	68,019
Machinery and equipment	110,674	26,044	-	136,718
Total capital assets, being depreciated	8,275,958	43,681	-	8,319,639
Less accumulated depreciation for:				
Buildings	435,971	99,715	-	535,686
Distribution system, plant improvements, and infrastructure	1,275,052	212,924	-	1,487,976
Meters, Vehicles, Machinery & Equipment	561,850	44,703	-	606,553
Total accumulated depreciation	2,272,873	357,342	-	2,630,215
Total capital assets, being depreciated, net	6,003,085	(313,661)	-	5,689,424
Business-type activities capital assets, net	\$ 6,003,085	\$ (17,536)	\$ -	\$ 5,985,549

## NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<b>Governmental activities</b>					
Beach note	\$ 3,185,813	\$ -	\$ (599,949)	\$ 2,585,864	\$ 617,870
Compensated absences	340,837	164,614	(158,451)	347,000	21,174
	\$ 3,526,650	\$ 164,614	\$ (758,400)	\$ 2,932,864	\$ 639,044
<b>Business-type activities</b>					
Water plant loan ("SRF") - DW062600	\$ 4,607,353	\$ -	\$ (294,268)	\$ 4,313,085	\$ 301,432
Compensated absences	42,694	24,802	(21,983)	45,513	-
	\$ 4,650,047	\$ 24,802	\$ (316,251)	\$ 4,358,598	\$ 301,432

### **Beach Renourishment Promissory Note**

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

**NOTE 8 – LONG-TERM LIABILITIES (Continued)**

**Beach Renourishment Promissory Note (Continued)**

At September 30, 2017, the scheduled debt service requirements on the beach renourishment promissory note were as follows:

	Principal	Interest	Total
2018	\$ 617,870	\$ 78,092	\$ 695,962
2019	636,529	59,433	695,962
2020	655,752	40,210	695,962
2021	675,713	20,406	696,119
<b>Total</b>	<b>\$ 2,585,864</b>	<b>\$ 198,141</b>	<b>\$ 2,784,005</b>

**Water Plant Loan Agreement “SRF” – DW062600**

In fiscal year 2012 the Town entered into a state revolving funds loan with the Florida Department of Environmental Protection to provide financing for the water plant construction. The loan is a pass through federal grant from the Environmental Protection Agency. The disbursable funds under the loan were originally \$5,532,317. Interest payable on the original funding amount is 2.42% per annum. The amount of disbursable funds was increased in fiscal year 2013 by \$638,099. During the year fiscal year ended September 30, 2014, the Town received an additional loan disbursement in the amount of \$2,233,322. During the year fiscal year ended September 30, 2016, the Town received an additional disbursement of \$21,800. Interest payable on the additional funding amount is 2% per annum. Loan payments are due beginning on March 15, 2014 and semiannually thereafter on September 15 and March 15 of each year until all amounts due have been fully paid. Each semiannual loan payment shall be in the amount of \$201,998 until the agreement is amended for the final loan amount. The loan is secured by the pledged revenues of the water fund which are defined as the gross revenues minus the operating expenses and the satisfaction of all yearly payment obligations on account of any senior obligations. The Town is also subjected to certain covenants and is mandated to establish water rates going forward so that each fiscal year they will provide pledged revenues which are at least 115% of the principal and interest coming due on the note in such fiscal year. As of September 30, 2017, the Town owes \$4,313,085 on this loan.

At September 30, 2017, the scheduled debt service requirements on water plant loan “SRF” were as follows:

	Principal	Interest	Total
2018	\$ 301,432	\$ 102,564	\$ 403,996
2019	308,771	95,225	403,996
2020	316,288	87,708	403,996
2021	323,989	80,007	403,996
2022	331,877	72,119	403,996
2023-2027	1,784,591	235,389	2,019,980
2028-2030	946,137	33,904	980,041
<b>Total</b>	<b>\$ 4,313,085</b>	<b>\$ 706,916</b>	<b>\$ 5,020,001</b>

**Water Plant Loan Agreement “SRF” – DW062610**

In March 2017 the Town entered into a state revolving funds loan with the Florida Department of Environmental Protection to provide financing for the water transmission and distribution construction. The loan is a pass through federal grant from the Environmental Protection Agency. The estimated principal available under the loan is \$6,672,209, which consists of \$6,649,709 to be disbursed and \$22,500 of capitalized interest. Interest payable on the original funding amount is 1.08% per annum. The loan is payable in 40 semiannual payments that was scheduled to begin on May 15, 2018, and semiannually thereafter on November 15 and May 15 of each year until all amounts due have been fully paid. The loan was amended in February 2018 to extend the due date to the first semiannual payment to May 15, 2019. Each semiannual loan payment shall be in the amount of \$189,647 until the payment amount is adjusted by amendment. The loan is secured by the pledged revenues of the water fund which are defined as the 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, 2017, there was no drawdown on loan.

## NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS)

### General Information about the FRS

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

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

The Town's pension expense totaled \$240,366 for the fiscal year ended September 30, 2017.

### FRS Pension Plan

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

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

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

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

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**FRS Pension Plan (Continued)**

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

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

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

Contributions – The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u> <u>October 1, 2016 to June 30, 2017</u>		<u>Percent of Gross Salary</u> <u>July 1, 2017 to September 30, 2017</u>	
	<u>Employee</u>	<u>Employer (1)</u>	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52	3.00	7.92
FRS, Special Risk	3.00	22.57	3.00	23.27

(1) Employer rates include a postemployment HIS contribution rate of 1.66%. Also, employer rates include .06% for administrative costs of the investment plan.

The Town's contributions to the Plan totaled \$288,224 for the fiscal year ended September 30, 2017. This excludes the HIS defined benefit pension plan contributions.

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**FRS Pension Plan (Continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2017, the Town reported a liability of \$3,320,718 for its proportionate share of the Plan’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Town’s proportionate share of the net pension liability was based on the Town’s contributions for the year ended June 30, 2017 relative to the contributions made during the year ended June 30, 2016 of all participating members. At June 30, 2017, the Town’s proportionate share was .0112%, which is not significantly different from its proportionate share measured as of June 30, 2016. For the fiscal year ended September 30, 2017. The Town recognized pension expense of \$228,165 related to the Pension Plan. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 304,762	\$ (18,395)
Change of assumptions	1,115,996	-
Net difference between projected and actual earnings on FRS pension plan investments	(82,296)	-
Changes in proportion and differences between Town FRS contributions and proportionate share of FRS contributions	103,609	(117,387)
Town FRS contributions subsequent to the measurement date	75,547	-
Total	<u>\$ 1,517,618</u>	<u>\$ (135,782)</u>

The deferred outflows of resources related to pensions, totaling \$75,547, resulting from Town contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30:	Amount
2018	\$ 170,505
2019	453,188
2020	316,870
2021	64,744
2022	218,977
Thereafter	82,005
<b>Total</b>	<u>\$ 1,306,289</u>

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

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

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2009, through June 30, 2014.

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**FRS Pension Plan (Continued)**

Actuarial Assumptions (Continued) - The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Arithmetic Return</b>	<b>(Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.0%	3.0%	3.0%	1.8%
Fixed income	18.0%	4.5%	4.4%	4.2%
Global equity	53.0%	7.8%	6.6%	17.0%
Real estate (property)	10.0%	6.6%	5.9%	12.8%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	9.7%
<b>Total</b>	<b>100.0%</b>			
Assumed inflation - mean		2.6%		1.9%

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

Discount Rate – The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Town's Proportionate Share of the Net Position Liability to Changes in the Discount Rate – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

	<b>1% Decrease (6.10%)</b>	<b>Current Discount Rate (7.10%)</b>	<b>1% Increase (8.10%)</b>
Town's proportionate share of net pension liability	\$ 6,010,299	\$ 3,320,718	\$ 1,087,750

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

**HIS Pension Plan**

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

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**HIS Pension Plan (Continued)**

Benefits Provided – For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions – The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2017, the contribution rate was 1.66% of payroll from October 1, 2016 through September 30, 2017 pursuant to section 112.363, Florida Statutes. The Town contributed 100 percent of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The Town's contributions to the HIS Plan totaled \$31,647 for the fiscal year ended September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2017, the Town reported a net pension liability of \$635,240 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Town's proportionate share of the net pension liability was based on the year ended June 30, 2017 contributions relative to the year ended June 30, 2016 contributions of all participating members. At June 30, 2017, the Town's proportionate share was .0059%, which did not significantly change compared to its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the Town recognized pension expense of \$12,201 related to the HIS Plan. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (1,323)
Change of assumptions	89,293	(54,930)
Net difference between projected and actual earnings on HIS plan investments	352	-
Changes in proportion and differences between Town HIS contributions and proportionate share of HIS contributions	3,683	(21,976)
Town HIS contributions subsequent to the measurement date	7,541	-
Total	<u>\$ 100,869</u>	<u>\$ (78,229)</u>

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**HIS Pension Plan (Continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued) – The deferred outflows of resources related to pensions, totaling \$7,541, resulting from Town contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30:	Amount
2018	\$ 4,707
2019	4,677
2020	4,662
2021	3,495
2022	1,380
Thereafter	(3,822)
<b>Total</b>	<b>\$ 15,099</b>

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

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	3.58%

Mortality rates were based on the Generational RP-2000 with Projected Scale BB. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009, through June 30, 2014.

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

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 3.58%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Town's proportionate share of net pension liability	\$ 724,893	\$ 635,240	\$ 560,564

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

**NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) (Continued)**

**FRS – Defined Contribution Pension Plan**

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

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

Allocations to the investment member's accounts during the 2017 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30%
FRS, Special Risk	14.00%

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06% from and by forfeited benefits of Investment Plan members.

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

The Town's Investment Plan pension expense totaled \$25,308 for the fiscal year ended September 30, 2017.

**NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

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

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

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

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

**Actuarial Methods and Assumptions**

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

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

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

**Actuarial Methods and Assumptions (Continued)**

Significant methods and assumptions were as follows:

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

\* Includes inflation at 2.75% per annum

**Annual OPEB Cost**

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

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

Required contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Annual Required Contribution	\$ 22,000
Interest on net OPEB Obligation	3,000
Adjustment to ARC	<u>(9,000)</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>82,000</u>
Net OPEB obligation - end of year	<u>\$ 91,000</u>

\*Represents a credit for the implied subsidy

**Funded Status and Funding Progress**

The funded status of the plan as of October 1, 2015 valuation date was as follows:

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

## **NOTE 11 – COMMITMENTS**

### **Interlocal Agreements**

On January 10, 2012, the Town entered into an interlocal agreement with the City of Deerfield Beach, Florida to furnish emergency medical and fire protection services. The agreement had an annual base fee of \$592,540 to be adjusted annually to offset increased costs based upon further changes to the fees paid to Broward Sheriff's Office (BSO) by the City of Deerfield Beach pursuant to the BSO contract. In the current fiscal year, the fee was adjusted and the fee paid to the City of Deerfield Beach under this agreement was \$753,300.

### **Construction Contracts**

As of September 30, 2017, the Town had open contracts for various construction projects. The contracts totaled approximately \$6.5 million, of which approximately \$6.26 million was uncompleted at September 30, 2017.

## **NOTE 12 – LITIGATION**

There are erosions problems on Town's beaches caused by groins installed by the City of Deerfield Beach, Florida ("Deerfield Beach"). Certain permits state that if the groins have an adverse impact on the Town it is Deerfield Beach's responsibility to take corrective action. After attempts to negotiate an interlocal agreement with the Deerfield Beach failed, the Town took legal action under Chapter 164 of the Florida Statute against the City of Deerfield Beach, Florida to honor the permit conditions regarding the groins. As of the report date, the outcome cannot be determined and, therefore, no amounts related to this matter have been reflected in the financial statements.

## **NOTE 13 – RISK MANAGEMENT**

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

## **NOTE 14 – SUBSEQUENT EVENTS**

### **Drinking Water State Revolving Fund Construction Loan Agreement-DW062610**

Subsequent to fiscal year end, the Town had disbursement of \$650,203 under the loan.

**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, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 3,974,987	\$ 4,205,574	\$ 4,202,257	\$ (3,317)
Special assessments	750,523	750,523	757,781	7,258
Licenses and permits	67,000	208,457	212,303	3,846
Utility and franchise fees	225,000	225,000	227,182	2,182
Intergovernmental	248,110	247,325	244,636	(2,689)
Grant revenue	59,950	59,950	49,688	(10,262)
Interest	28,000	32,123	33,231	1,108
Miscellaneous	37,000	49,570	33,958	(15,612)
Total revenues	5,390,570	5,778,522	5,761,036	(17,486)
<b>EXPENDITURES</b>				
Current:				
General government	712,506	708,317	656,676	51,641
Public safety	3,246,163	3,261,488	3,244,600	16,888
Physical environment	401,267	417,587	405,713	11,874
Transportation	87,628	87,628	85,820	1,808
Building and engineer	79,000	106,630	99,559	7,071
Beaches	308,000	745,697	703,039	42,658
Debt service:				
Principal payment	582,165	599,949	599,949	-
Interest expense	113,797	96,013	96,013	-
Capital outlay	60,044	89,026	99,917	(10,891)
Total expenditures	5,590,570	6,112,335	5,991,286	121,049
Excess (deficiency) of revenues over (under) expenditures	(200,000)	(333,813)	(230,250)	103,563
<b>OTHER FINANCING SOURCES</b>				
Use of fund balance reserves	150,000	283,813	-	(283,813)
Transfers in	50,000	50,000	50,000	-
Total other financing sources	200,000	333,813	50,000	(283,813)
Net change in fund balance	\$ -	\$ -	(180,250)	\$ (180,250)
Fund balance - beginning			5,033,516	
Fund balance - ending			\$ 4,853,266	

See notes to required supplementary information

**TOWN OF HILLSBORO BEACH, FLORIDA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Commission. The general fund budget for the fiscal year ended September 30, 2017 was amended to increase revenues by \$387,952 and increase appropriations by \$521,765. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2017.

**TOWN OF HILLSBORO BEACH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**Other Post Employment Benefits**

Schedule of Employer Contributions:

Year Ended September 30	Employer Contributions	
	Annual Required Contribution	% Contributed
2014	\$ 19,000	37%
2015	19,000	37%
2016	22,000	27%
2017	22,000	32%

Schedule of Funding Progress:

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

**TOWN OF HILLSBORO BEACH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF  
NET PENSION LIABILITY  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

	2017	2016	2015
Town's proportion of the FRS net pension liability	0.01122648%	0.01117190%	1.01757100%
Town's proportionate share of the FRS net pension liability	\$ 3,320,718	\$ 2,820,914	\$ 1,314,330
Town's covered employee payroll	\$ 1,909,272	\$ 1,728,913	\$ 1,687,914
Town's proportionate share of the FRS net pension liability as a percentage of its covered employee payroll	173.93%	163.16%	77.87%
FRS plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%

**Schedule of the Town's Proportionate Share of the Net Pension Liability -  
Health Insurance Subsidy Pension Plan  
Last 10 Years (1) (2)**

	2017	2016	2015
Town's proportion of the HIS net pension liability	0.005941005%	0.005964028%	0.006147330%
Town's proportionate share of the HIS net pension liability	\$ 635,240	\$ 695,083	\$ 626,931
Town's covered employee payroll	\$ 1,909,272	\$ 1,728,913	\$ 1,687,914
Town's proportionate share of the HIS net pension liability as a percentage of its covered employee payroll	33.27%	40.20%	37.14%
HIS plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%

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

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

**TOWN OF HILLSBORO BEACH  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

	2017	2016	2015
Contractually required FRS contribution	\$ 288,224	\$ 260,082	\$ 248,093
FRS contributions in relation to the contractually required contribution	(288,224)	(260,082)	(248,093)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered employee payroll	\$ 1,906,430	\$ 1,664,196	\$ 1,720,063
FRS contributions as a percentage of covered employee payroll	15.12%	15.63%	14.42%

**Schedule of the Town Contributions -  
Health Insurance Subsidy Pension Plan  
Last 10 Fiscal Years (1) (2)**

	2017	2016	2015
Contractually required HIS contribution	\$ 31,647	\$ 27,626	\$ 23,499
HIS contributions in relation to the contractually required contribution	(31,647)	(27,626)	(23,499)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered employee payroll	\$ 1,906,430	\$ 1,664,196	\$ 1,720,063
HIS contributions as a percentage of covered employee payroll	1.66%	1.66%	1.37%

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

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



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

To the Town Commission  
Town of Hillsboro Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business type activities and each major fund of the Town of Hillsboro Beach, Florida ("Town") as of and for the fiscal year ended September 30, 2017, 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 28, 2018.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Grau & Associates*

June 28, 2018



**Grau & Associates**  
CERTIFIED PUBLIC ACCOUNTANTS

951 Yamato Road • Suite 280  
Boca Raton, Florida 33431  
(561) 994-9299 • (800) 299-4728  
Fax (561) 994-5823  
www.graucpa.com

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

To the Town Commission  
Town of Hillsboro Beach, Florida

We have examined the Town of Hillsboro Beach, Florida's ("Town") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2017. Management is responsible for Town's compliance with those requirements. Our responsibility is to express an opinion on Town's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Town complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the Town complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Town's compliance with specified requirements.

In our opinion, the Town complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2017.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, management, and the Town Commission of the Town of Hillsboro Beach, Florida and is not intended to be and should not be used by anyone other than these specified parties.

*Grau & Associates*

June 28, 2018



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

To the Town Commission  
Town of Hillsboro Beach, Florida

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Town of Hillsboro Beach, Florida ("Town") as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 28, 2018.

**Auditor's Responsibility**

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

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 28, 2018, should be considered in conjunction with this management letter.

**Purpose of this Letter**

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

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

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

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

*Grau & Associates*

June 28, 2018

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

### II. PRIOR YEAR FINDINGS AND CURRENT YEAR STATUS

None

### 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, 2016.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2017.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2017.

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

5. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2017 financial audit report.

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

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

