

**TOWN OF HILLSBORO BEACH, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

TOWN OF HILLSBORO BEACH, FLORIDA

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-6
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Fund	9
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	12
Statement of Net Assets – Proprietary Fund	13
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	14
Statement of Cash Flows – Proprietary Fund	15
Notes to the Financial Statements	16-29
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	30
Notes to Required Supplementary Information	31
Schedule of Employer Contributions and Funding Progress	32
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33 - 34
MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA	35-37
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	38-39
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	40
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	41
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	42-43



Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

2700 North Military Trail • Suite 350
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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the major fund of the Town of Hillsboro Beach, Florida (the "Town") as of and for the fiscal year ended September 30, 2012, which collectively comprises the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the major fund of the Town as of and for the fiscal year ended September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, and agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Grau & Associates

June 24, 2013

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, 2012. Please read it in conjunction with the Town's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the fiscal year ended September 30, 2012, resulting in a net asset balance of \$946,108.
- The Town's net assets increased by \$2,074,209 in comparison with the prior year. The majority of the increase was the result of the Town receiving federal grant reimbursements in relation to a beach renourishment project expenses from prior fiscal years. The key components of the Town's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2012, the Town's governmental fund reported combined ending fund balance of \$2,822,060 an increase of \$1,378,150 in comparison with the prior year. Of the total fund balance, \$221,697 is non-spendable for prepaid items; \$363,354 is restricted for capital projects and \$2,237,009 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 assets presents information on all the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, physical environment, transportation and culture and recreation. The business-type activities of the Town include the water 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 individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund.

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

Proprietary Funds

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

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

3) Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	NET ASSETS SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,594,244	\$ 1,785,415	\$ 1,287,960	\$ 1,002,578	\$ 4,882,204	\$ 2,787,993
Capital assets, net of depreciation	1,593,519	1,688,423	5,230,815	1,303,103	6,824,334	2,991,526
Total assets	5,187,763	3,473,838	6,518,775	2,305,681	11,706,538	5,779,519
Current liabilities	825,472	465,914	260,188	64,738	1,085,680	530,652
Long-term liabilities	5,853,777	6,299,741	3,820,993	77,227	9,674,770	6,376,968
Total liabilities	6,679,249	6,765,655	4,081,181	141,965	10,760,430	6,907,620
Net assets						
Invested in capital assets	1,593,519	1,688,423	2,132,023	1,303,103	3,725,542	2,991,526
Restricted	324,426	362,582	50,185	-	374,611	362,582
Unrestricted	(3,409,431)	(5,342,822)	255,386	860,613	(3,154,045)	(4,482,209)
Total net assets (deficit)	\$ (1,491,486)	\$ (3,291,817)	\$ 2,437,594	\$ 2,163,716	\$ 946,108	\$ (1,128,101)

A portion of the Town's net assets reflects its investment in capital assets (e.g. land, land improvements, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending.

The Town's net assets increased significantly during the most recent fiscal year. The majority of the increase represents the receipt of a non-recurring federal reimbursement grant related to the beach renourishment project.

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

	CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,					
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 901,705	\$ 59,231	\$ 1,170,087	\$ 1,092,676	\$ 2,071,792	\$ 1,151,907
Operating grants and contributions	1,656,511	57,793	-	-	1,656,511	57,793
General revenues:						
Property taxes	3,136,441	3,224,589	-	-	3,136,441	3,224,589
Utility and franchise fees	216,343	237,383	-	-	216,343	237,383
Intergovernmental revenue	434,877	234,705	-	-	434,877	234,705
Unrestricted investment earnings	-	15,829	7,872	5,428	7,872	21,257
Miscellaneous	-	81,167	53,565	51,535	53,565	132,702
Total revenues	6,345,877	3,910,697	1,231,524	1,149,639	7,577,401	5,060,336
Expenses:						
Governmental activities:						
General government	559,295	383,721	-	-	559,295	383,721
Public safety	2,807,162	3,024,819	-	-	2,807,162	3,024,819
Physical environment	1,190,790	6,399,608	-	-	1,190,790	6,399,608
Transportation	66,035	6,355	-	-	66,035	6,355
Culture and recreation	26,493	37,905	-	-	26,493	37,905
Interest expense	170,771	124,409	-	-	170,771	124,409
Business - type activities:						
Water utilities	-	-	682,646	858,751	682,646	858,751
Total expenses	4,820,546	9,976,817	682,646	858,751	5,503,192	10,835,568
Transfers	275,000	-	(275,000)	-	-	-
Change in net assets	1,800,331	(6,066,120)	273,878	290,888	2,074,209	(5,775,232)
Net assets (deficit), beginning	(3,291,817)	2,774,303	2,163,716	1,872,828	(1,128,101)	4,647,131
Net assets (deficit), ending	\$ (1,491,486)	\$ (3,291,817)	\$ 2,437,594	\$ 2,163,716	\$ 946,108	\$ (1,128,101)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental activities

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2012 was \$4,820,546. These activities were financed through general revenues of \$6,345,877 which consist primarily of ad valorem, utility and other taxes.

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 as a result of the treatment of transfers in the prior year as expenses.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the Town pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Commission. The general fund budget for the fiscal year ended September 30, 2012 was amended to increase revenues by \$480,000 and increase appropriations by \$480,000. The increase in budgeted revenues was for the expected increase in grant revenue for beach renourishment. The increase in appropriations is primarily the result of the additional costs incurred related to the beach renourishment project. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2012.

The variance between budgeted and actual general fund revenues for the current fiscal year is the result of greater than expected grant revenue related to the beach renourishment. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year relating to public safety.

CAPITAL ASSETS

At September 30, 2012, the Town had \$2,880,682 invested in land, construction in progress, buildings, infrastructure and machinery and equipment, for its governmental activities. In the government-wide financial statements depreciation of \$1,287,163 has been taken, which resulted in a net book value of \$1,593,519 and the Town's business-type activities reported net capital assets of \$5,230,815. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

CAPITAL DEBT

At September 30, 2012, the Town had a \$5,414,199 loan outstanding for its governmental activities. For business-type activities, the Town had a loan outstanding of \$3,098,792. 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

During the fiscal year, the Town entered into a revolving funds loan from the Florida Department of Environmental Protection in order to finance a project for the construction of a new water utility plant in the amount of \$5,532,317. No draws were made in the current year. Subsequent to year end, approximately \$3 million was drawn from the loan. The water plant construction is also being financed by a draw down facility with a bank. The Town has yet to determine which loan is more advantageous for the Town; therefore, as of the report date, the \$3 million draws from the state revolving funds have not been used to pay the balance of the draw down facility of the bank. More information can be found in the notes to the financial statements.

Subsequent to year end, the Town paid Hillsboro Island House Condominium Apartments \$160,000 to accept the reconveyance of a bridge with the understanding that the payment was to make current and projected repairs, upgrades and improvements to the Bridge.

REQUEST FOR INFORMATION

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

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

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 779,088	\$ 280,649	\$ 1,059,737
Investments	2,125,090	862,137	2,987,227
Accounts receivable, net	101,318	94,029	195,347
Internal balances	3,697	(3,697)	-
Prepays	221,697	4,657	226,354
Restricted assets:			
Temporarily restricted:			
Cash	363,354	50,185	413,539
Capital assets:			
Nondepreciable	30,000	4,736,149	4,766,149
Depreciable, net	1,563,519	494,666	2,058,185
Total assets	<u>5,187,763</u>	<u>6,518,775</u>	<u>11,706,538</u>
LIABILITIES			
Accounts payable	135,849	100,258	236,107
Accrued liabilities	53,770	-	53,770
Contracts payable	-	681,716	681,716
Retainage payable	513,103	159,930	673,033
Accrued interest payable	81,586	-	81,586
Customer deposits	38,928	-	38,928
Deferred revenue	2,236	-	2,236
Noncurrent liabilities:			
Due in less than one year:			
Note payable	532,453	-	532,453
Compensated absences	28,298	6,564	34,862
Due in more than one year:			
Note payable	4,881,746	3,098,792	7,980,538
Compensated absences	359,280	33,921	393,201
Net OPEB obligation	52,000	-	52,000
Total liabilities	<u>6,679,249</u>	<u>4,081,181</u>	<u>10,760,430</u>
NET ASSETS			
Invested in capital assets	1,593,519	2,132,023	3,725,542
Restricted	324,426	50,185	374,611
Unrestricted	(3,409,431)	255,386	(3,154,045)
Total net assets (deficit)	<u>\$ (1,491,486)</u>	<u>\$ 2,437,594</u>	<u>\$ 946,108</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:						
Governmental activities:						
General government	\$ 559,295	\$ 135,537	\$ -	\$ (423,758)	\$ -	\$ (423,758)
Public safety	2,807,162	-	-	(2,807,162)	-	(2,807,162)
Physical environment	1,190,790	69,441	1,656,511	535,162	-	535,162
Transportation	66,035	-	-	(66,035)	-	(66,035)
Building and engineering	26,493	-	-	(26,493)	-	(26,493)
Interest	170,771	696,727	-	525,956	-	525,956
Total governmental activities	4,820,546	901,705	1,656,511	(2,262,330)	-	(2,262,330)
Business-type activities:						
Water utilities	682,646	1,170,087	-	-	487,441	487,441
Total business-type activities	682,646	1,170,087	-	-	487,441	487,441
Total	5,503,192	2,071,792	1,656,511	(2,262,330)	487,441	(1,774,889)
General revenues:						
Property taxes				3,136,441	-	3,136,441
Utility and franchise fees				216,343	-	216,343
Intergovernmental revenue				434,877	-	434,877
Unrestricted investment earnings				-	7,872	7,872
Miscellaneous				-	53,565	53,565
Transfers in (out)				275,000	(275,000)	-
Total general revenues and transfers				4,062,661	(213,563)	3,849,098
Change in net assets				1,800,331	273,878	2,074,209
Net assets - beginning - restated				(3,291,817)	2,163,716	(1,128,101)
Net assets (deficit) - ending				\$ (1,491,486)	\$ 2,437,594	\$ 946,108

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2012**

	Major Fund	Total
	General	Governmental Funds
ASSETS		
Cash	\$ 779,088	\$ 779,088
Investments	2,125,090	2,125,090
Accounts receivable, net	101,318	101,318
Due from other funds	3,697	3,697
Prepays	221,697	221,697
Cash-restricted	363,354	363,354
Total assets	\$ 3,594,244	\$ 3,594,244
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 135,849	\$ 135,849
Accrued liabilities	82,068	82,068
Retainage payable	513,103	513,103
Deferred revenue	2,236	2,236
Customer deposits	38,928	38,928
Total liabilities	772,184	772,184
Fund balance:		
Nonspendable:		
Prepaid items	221,697	221,697
Restricted:		
Capital projects	363,354	363,354
Unassigned	2,237,009	2,237,009
Total fund balance	2,822,060	2,822,060
Total liabilities and fund balance	\$ 3,594,244	\$ 3,594,244

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Fund balance - governmental funds \$ 2,822,060

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

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

Cost of capital assets	2,880,682	
Accumulated depreciation	<u>(1,287,163)</u>	1,593,519

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

Net OPEB obligation	(52,000)	
Interest payable	(81,586)	
Note payable	(5,414,199)	
Compensated absences due in more than one year	<u>(359,280)</u>	

Net assets of governmental activities		<u><u>\$ (1,491,486)</u></u>
---------------------------------------	--	------------------------------

See notes to the financial statements

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Major Fund</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
REVENUES		
Property taxes	\$ 3,136,441	\$ 3,136,441
Special assessments	696,727	696,727
Licenses and permits	135,537	135,537
Utility and franchise fees	216,343	216,343
Intergovernmental	434,877	434,877
Grant revenue	1,635,876	1,635,876
Interest	20,635	20,635
Miscellaneous	69,441	69,441
Total revenues	<u>6,345,877</u>	<u>6,345,877</u>
EXPENDITURES		
Current:		
General government	519,638	519,638
Public safety	2,689,759	2,689,759
Physical environment	1,190,790	1,190,790
Transportation	66,035	66,035
Building and engineering	26,493	26,493
Debt service:		
Principal payment	482,368	482,368
Interest expense	213,594	213,594
Capital outlay	54,050	54,050
Total expenditures	<u>5,242,727</u>	<u>5,242,727</u>
Excess (deficiency) of revenues over (under) expenditures	1,103,150	1,103,150
OTHER FINANCING SOURCES (USES)		
Transfer in from other fund	275,000	275,000
Total other financing sources (uses)	<u>275,000</u>	<u>275,000</u>
Net change in fund balances	1,378,150	1,378,150
Fund balance - beginning	<u>1,443,910</u>	<u>1,443,910</u>
Fund balance - ending	<u>\$ 2,822,060</u>	<u>\$ 2,822,060</u>

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF
ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balance - total governmental funds	\$ 1,378,150
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 assets.	55,450
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	482,368
Depreciation on capital assets is not recognized in the governmental fund statements but is reported as an expense in the statement of activities.	(150,354)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The details of the differences are as follows:	
Change in long-term compensated absences due in more than one year	8,894
Other post employment benefit obligation	(17,000)
Change in accrued interest	42,823
Change in net assets of governmental activities	\$ 1,800,331

See notes to the financial statements

TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2012

	Business-Type Activities Enterprise Fund
	Water Utility
ASSETS	
Current assets:	
Cash	280,649
Investments	862,137
Accounts receivable, net	94,029
Prepaid expenses	4,657
Restricted cash	50,185
Total current assets	1,291,657
Noncurrent assets:	
Capital assets:	
Construction in progress	4,736,149
Buildings	365,101
Distribution system	1,464,295
Plant improvements	19,748
Infrastructure	102,068
Meters	344,380
Vehicles	94,784
Machinery and equipment	84,833
Less accumulated depreciation	(1,980,543)
Total capital assets, net of accumulated depreciation	5,230,815
Total noncurrent assets	5,230,815
Total assets	6,522,472
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	100,258
Contracts payable	681,716
Retainage payable	159,930
Due to other funds	3,697
Compensated absences	6,564
Total current liabilities	952,165
Noncurrent liabilities:	
Loan payable	3,098,792
Compensated absences	33,921
Total noncurrent liabilities	3,132,713
Total liabilities	4,084,878
NET ASSETS	
Invested in capital assets	2,132,023
Restricted	50,185
Unrestricted	255,386
Total net assets	\$ 2,437,594

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Business-Type Activities Enterprise Fund
	Water Utility
OPERATING REVENUES	
Charges for services	1,170,087
Total operating revenues	1,170,087
OPERATING EXPENSES	
Salaries and benefits	310,522
Operating	191,631
Repairs and maintenance	53,559
Depreciation and amortization	106,170
Total operating expense	661,882
Operating income	508,205
NON OPERATING REVENUES (EXPENSES)	
Interest revenue	7,872
Interest expense	(20,764)
Miscellaneous revenue	53,565
Total non operating revenue (expenses)	40,673
Income before transfers	548,878
Transfers (out)	(275,000)
Change in net assets	273,878
Total net assets - beginning	2,163,716
Total net assets - ending	\$ 2,437,594

See notes to the financial statements

**TOWN OF HILLSBORO BEACH, FLORIDA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	Business-Type Activities Enterprise Fund
	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,179,941
Payments to employees	(302,026)
Payments to suppliers of goods and services	(895,706)
Net cash provided (used) by operating activities	(17,791)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Miscellaneous revenue	53,565
Transfer out	(275,000)
Net cash provided (used) by noncapital financing activities	(221,435)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(3,192,236)
Proceeds from long term debt	3,048,792
Interest expense	(20,764)
Net cash (used) by capital and related financing activities	(164,208)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earnings	7,872
Proceeds from sale of investments	92,244
Net cash (used) by investing activities	100,116
Net (decrease) in cash and cash equivalents	(303,318)
Cash and cash equivalents - October 1	634,152
Cash and cash equivalents - September 30	\$ 330,834
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 508,205
Adjustments to reconcile operating income (loss) to net cash provided (used) by Operating Activities:	
Depreciation and amortization	106,170
(Increase) decrease in accounts receivable	9,854
(Increase) decrease in prepaids	(4,634)
Increase (decrease) in accounts payable	40,282
Increase (decrease) in due to other funds	(686,164)
Increase (decrease) in compensated absences	8,496
Total adjustments	(525,996)
Net cash provided (used) by operating activities	\$ (17,791)

See notes to the financial statements

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

NOTE 1 – NATURE OF ORGANIZATION AND REPORTING ENTITY

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

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the Town Commission is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that, if excluded, the financial statements of the Town would be considered incomplete or misleading. There are no entities considered to be component units of the Town; therefore, the financial statements include only the operations of the Town.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property Taxes

Property taxes are ad valorem and levied each November 1 on property as of the previous January 1. The Broward County, Florida Tax Collector's Office bills and collects ad valorem taxes on behalf of the Town. The ad valorem tax rate for fiscal year ended September 30, 2012 was \$3.39 per \$1,000 of assessed taxable property value. Ad valorem taxes are due for payment on March 31 and become delinquent April 1. Tax certificates are sold to satisfy liens on delinquent assessments in July. Property taxes relating to the current budget and collected within 60 days after the year end of the budget period are recognized as revenue.

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

The Town reports the following major governmental fund:

General Fund

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

The Town reports the following major proprietary fund:

Water Fund

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

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

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

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

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

Inventories and Prepaid Items

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

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

Receivables and Payables

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

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

Capital Assets

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	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.

Deferred Revenue

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

Compensated Absences

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, as a result of employee resignation or retirement. Liability for accrued compensated absences of the governmental activities is not reported in the balance sheet of the governmental funds and, accordingly, represents a reconciling item between the fund and government-wide presentations. Payments are generally paid out of the general fund.

Long-Term Obligations

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

Fund Equity/Net Assets

In the fund financial statements, governmental funds report 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity/Net Assets (Continued)

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

The Town first uses committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the assets restricted by the Town's loan covenants or other contractual restrictions.

Use of Estimates

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

NOTE 3 – BUDGETARY INFORMATION

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

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The Town's investments were held as follows at September 30, 2012:

<u>Governmental Activities</u>	<u>Fair Value</u>	<u>Credit Risk</u>	<u>Maturities</u>
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	\$ 2,071,054	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	54,036	Not rated	*
	<u>2,125,090</u>		
<u>Business-Type Activities</u>			
Investment in Local Government Surplus Funds Trust Fund (Florida PRIME)	\$ 843,665	S&P AAAM	*
Investment in Fund B Surplus Funds Trust Fund	18,472	Not rated	*
	<u>\$ 862,137</u>		

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

There are two options for accounting and reporting for money market investment pools either "2a-7 like" or fluctuating net asset value ("NAV"). "2a-7 like" pool is an external investment pool that is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Rule 2a-7 is the rule that allows money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. The Local Government Surplus Funds Trust Fund Investment Pool (Florida PRIME) is considered a 2a7-like fund and the Town has reported its investment in Florida PRIME at the same value as the pooled shares allocated to the Town. The estimated weighted average maturity of the Florida PRIME portfolio is 39 days. Fund B is accounted for as a fluctuating NAV pool and the fair value factor for September 30, 2012 was .94896811. The Town has multiplied its account balance by the factor to determine the investment balance to be reported. The NAV balance in Fund B was \$72,508 for a net unrealized loss of approximately (\$3,899). Due to the nature of the securities in Fund B, the weighted average maturity is not available. The weighted average life of the fund is estimated at 4.08 years. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

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

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

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Interfund transfers for the fiscal year ended September 30, 2012 were as follows:

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

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

NOTE 6 – ACCOUNTS RECEIVABLE

Receivables at September 30, 2012, for the Town's major fund accounts are as follows:

	<u>General</u>	<u>Water</u>	<u>Total</u>
Intergovernmental	\$ 17,071	\$ -	\$ 17,071
Franchise fee	59,387	-	59,387
Other receivables	20,251	-	20,251
Customer accounts receivable	25,819	111,253	137,072
	<u>122,528</u>	<u>111,253</u>	<u>233,781</u>
Less: Allowance for uncollectible accounts	(21,210)	(17,224)	(38,434)
	<u>\$ 101,318</u>	<u>\$ 94,029</u>	<u>\$ 195,347</u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Total capital assets, not being depreciated	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Capital assets, being depreciated				
Buildings	1,811,823	-	-	1,811,823
Transportation equipment	32,717	-	32,717	-
Machinery and equipment	786,658	55,450	(32,717)	874,825
Improvements other than buildings	164,034	-	-	164,034
Total capital assets, being depreciated	<u>2,795,232</u>	<u>55,450</u>	<u>-</u>	<u>2,850,682</u>
Less accumulated depreciation for:				
Buildings	(445,730)	(35,086)	-	(480,816)
Transportation equipment	(32,717)	-	(32,717)	-
Machinery and equipment	(582,012)	(100,996)	32,717	(715,725)
Improvements other than buildings	(76,350)	(14,272)	-	(90,622)
Total accumulated depreciation	<u>(1,136,809)</u>	<u>(150,354)</u>	<u>-</u>	<u>(1,287,163)</u>
Total capital assets, being depreciated, net	<u>1,658,423</u>	<u>(94,904)</u>	<u>-</u>	<u>1,563,519</u>
Governmental activities capital assets, net	<u>\$ 1,688,423</u>	<u>\$ (94,904)</u>	<u>\$ -</u>	<u>\$1,593,519</u>

Depreciation is allocated as follows:

General government	\$ 24,057
Public safety	126,297
	<u>\$ 150,354</u>

NOTE 7 – CAPITAL ASSETS (Continued)

	Beginning Balance (reclassified)*	Additions	Reductions	Ending Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated				
Construction in progress	\$ 813,667	\$ 3,922,482	\$ -	\$ 4,736,149
Total capital assets, not being depreciated	<u>813,667</u>	<u>3,922,482</u>	<u>-</u>	<u>4,736,149</u>
Capital assets, being depreciated				
Buildings	365,101	-	-	365,101
Distribution system	1,464,295	-	-	1,464,295
Plant improvements	19,748	-	-	19,748
Infrastruture	102,068	-	-	102,068
Meters	264,654	79,726	-	344,380
Vehicles	85,078	31,674	(21,968)	94,784
Machinery and equipment	84,833	-	-	84,833
Total capital assets, being depreciated	<u>2,385,777</u>	<u>111,400</u>	<u>(21,968)</u>	<u>2,475,209</u>
Less accumulated depreciation for:				
Buildings	(224,764)	(18,255)	-	(243,019)
Distribution system, plant improvements, and infrastructure	(1,382,079)	(60,991)		(1,443,070)
Meters, Vehicles, Machinery & Equipment	(289,498)	(26,924)	21,968	(294,454)
Total accumulated depreciation	<u>(1,896,341)</u>	<u>(106,170)</u>	<u>21,968</u>	<u>(1,980,543)</u>
Total capital assets, being depreciated, net	<u>489,436</u>	<u>5,230</u>	<u>-</u>	<u>494,666</u>
Business-type activities capital assets, net	<u>\$ 1,303,103</u>	<u>\$ 3,927,712</u>	<u>\$ -</u>	<u>\$ 5,230,815</u>

* The beginning balances of capital assets being depreciated and related accumulated depreciation have been reclassified to present a more detailed classification. The reclassification did not effect the net balance of capital assets.

NOTE 8 – LONG-TERM LIABILITIES

Changes in long-term liability activity for the fiscal year ended September 30, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Governmental activities</u>					
Beach loan	\$ 5,896,567	\$ -	\$ 482,368	\$ 5,414,199	\$ 532,453
Compensated absences	368,174	163,787	144,383	387,578	28,298
	<u>\$ 6,264,741</u>	<u>\$ 163,787</u>	<u>\$ 626,751</u>	<u>\$ 5,801,777</u>	<u>\$ 560,751</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due in less than one year
<u>Business-type activities</u>					
Water plant loan	\$ 50,000	\$ 3,048,792	\$ -	\$ 3,098,792	\$ -
Compensated absences	31,989	17,755	9,259	40,485	6,564
	<u>\$ 81,989</u>	<u>\$ 3,066,547</u>	<u>\$ 9,259</u>	<u>\$ 3,139,277</u>	<u>\$ 6,564</u>

Water Plant Loan Agreement

On December 30, 2010, the Town entered into a draw down loan facility agreement with a bank in the principal amount of \$5,200,000 for the purpose of constructing certain improvements to the Town's potable water system. The debt is expected to be repaid over a period of approximately 20 years and bears variable interest of 62.5% of the daily LIBOR rate plus 1.47%. Accrued interest is payable on a monthly basis beginning January 31, 2011, and the Town will pay the bank installments of principal and interest on the last day of each month beginning December 31, 2013, based on the outstanding principal balance divided by 204. The entire loan is repayable in full on December 30, 2030. The loan is secured by the pledged revenues of the water fund which are defined as the gross revenues minus the operating expenses. The Town is also subjected to certain covenants and is mandated to establish water rates going forward so that each fiscal year they will provide pledged revenues which are at least 115% of the principal and interest coming due on the note in such fiscal year. As of September 30, 2012, the Town has drawn down \$3,098,792 on this facility.

At September 30, 2012, the scheduled debt service requirements on the water plant loan were as follows:

	Principal	Interest	Total
2013	-	49,637	\$ 49,637
2014	151,898	48,724	200,622
2015	182,278	45,865	228,143
2016	182,278	42,946	225,224
2017	182,278	40,026	222,304
2018-2022	911,390	156,332	1,067,722
2023-2027	911,390	83,336	994,726
2028-2031	577,280	15,025	592,305
	<u>\$ 3,098,792</u>	<u>\$ 481,891</u>	<u>\$ 3,580,683</u>

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Beach Renourishment Promissory Note

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

At September 30, 2012, the scheduled debt service requirements on the note payable were as follows:

	Principal	Interest	Total
2013	\$ 532,453	\$ 163,509	\$ 695,962
2014	548,533	147,429	695,962
2015	565,099	130,863	695,962
2016	582,165	113,797	695,962
2017	599,746	96,216	695,962
2018-2021	2,586,203	198,186	2,784,389
	<u>\$ 5,414,199</u>	<u>\$ 850,000</u>	<u>\$ 6,264,199</u>

NOTE 9 – RETIREMENT PLAN

Plan Description

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

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

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

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

NOTE 9 – RETIREMENT PLAN (Continued)

Funding Policy

Participating employers are required to make contributions based upon statewide contribution rates. Contributions to the FRS are made by the Town as a percentage of covered payroll. The contribution rates by job class for the Town's regular employees at September 30, 2012; was 5.18%. The rate for its special risk employees was 14.90%. It should also be noted that beginning July 1, 2011 all employees were required to contribute 3% to the Plan. The Town's contributions to FRS for the fiscal years ended September 30, 2012, 2011 and 2010 were \$174,314, \$268,362 and \$294,489, respectively, equal to the required contributions for each year.

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Based on GASB Statement 45 which sets forth the guidelines and a future implementation timetable for reporting and disclosure of Other Post-Employment Benefits ("OPEB"), the Town had an actuary calculate future funding requirements during fiscal year 2011. The actuary's estimate, using the projected unit credit cost method, included other actuarial assumptions as classified below. The Town elected to implement the provisions of GASB 45 prospectively. The Town has elected to use the alternative measurement method under GASB 45 since it has fewer than 100 plan members.

As of September 30, 2012, employee membership data related to the Plan was as follows:

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

Actuarial Methods and Assumptions

The actuarial valuation of the calculation of OPEB involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress 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.

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

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

Significant methods and assumptions were as follows:

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

* Includes inflation at 2.75%

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	\$ 30,000
Interest on net OPEB Obligation	1,000
Adjustment to ARC	(2,000)
Annual OPEB cost	<u>29,000</u>
Interest on Employer Contributions	-
Contributions made*	<u>(12,000)</u>
Increase in net OPEB obligation	17,000
Net OPEB obligation - beginning of year	35,000
Net OPEB obligation - end of year	<u><u>\$ 52,000</u></u>

*Represents a credit for the implied subsidy

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

Funded Status and Funding Progress

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

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

NOTE 11 – COMMITMENTS

Interlocal Agreement

The Town has an interlocal agreement with the City of Deerfield Beach, Florida to furnish emergency medical and fire protection services. On January 10, 2012 the agreement for 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. The agreement is renewable annually. In the current fiscal year the fee paid to the City of Deerfield Beach under this agreement was \$592,540.

NOTE 12 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage for each of the past three fiscal years.

NOTE 13 - SUBSEQUENT EVENTS

State Revolving Funds Loan

In the current fiscal year 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 are \$5,532,317. Interest is payable at 2.42% 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 \$182,227. In the current fiscal year no funds were drawn from the loan. Subsequent to year end, approximately \$3 million were drawn from the loan. The water plant construction is also being financed by a draw down facility with a bank. The Town has yet to determine which loan is more advantageous for the Town; therefore, as of the report date, the \$3 million draws from the state revolving funds have not been used to pay the balance of the draw down facility of the bank.

Bridge Conveyance

Subsequent to year end, the Town paid Hillsboro Island House Condominium Apartments \$160,000 to accept the reconveyance of a bridge with the understanding that the payment was to make current and projected repairs, upgrades and improvements to the Bridge.

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,235,339	\$ 3,235,339	\$ 3,136,441	\$ (98,898)
Special assessments	704,802	704,802	696,727	(8,075)
Licenses and permits	36,000	36,000	135,537	99,537
Utility and franchise fees	235,000	235,000	216,343	(18,657)
Intergovernmental	217,640	217,640	434,877	217,237
Grant revenue	86,208	566,208	1,635,876	1,069,668
Interest	10,000	10,000	20,635	10,635
Miscellaneous	69,890	69,890	69,441	(449)
Total revenues	4,594,879	5,074,879	6,345,877	1,270,998
EXPENDITURES				
Current:				
General government	608,470	608,470	519,638	88,832
Public safety	2,950,047	2,950,047	2,689,759	260,288
Physical environment	476,500	956,500	1,190,790	(234,290)
Transportation	67,800	67,800	66,035	1,765
Building and engineer	19,600	19,600	26,493	(6,893)
Debt service:				
Principal payment	482,368	482,368	482,368	-
Interest expense	213,594	213,594	213,594	-
Capital outlay	51,500	51,500	54,050	(2,550)
Total expenditures	4,869,879	5,349,879	5,242,727	107,152
Excess (deficiency) of revenues over (under) expenditures	(275,000)	(275,000)	1,103,150	1,378,150
OTHER FINANCING SOURCES				
Transfers in	275,000	275,000	275,000	-
	275,000	275,000	275,000	-
Net change in fund balance	\$ -	\$ -	1,378,150	\$ 1,378,150
Fund balance - beginning			1,443,910	
Fund balance - ending			\$ 2,822,060	

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, 2012 was amended to increase revenues by \$480,000 and increase appropriations by \$480,000. The increase in budgeted revenues was for the expected increase in grant revenue for beach renourishment. The increase in appropriations is primarily the result of the additional costs incurred related to the beach renourishment project. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2012.

The variance between budgeted and actual general fund revenues for the current fiscal year is the result of greater than expected grant revenue related to the beach renourishment. The actual general fund expenditures for the current fiscal year were lower than budgeted amounts due primarily to anticipated costs which were not incurred in the current fiscal year relating to public safety.

**TOWN OF HILLSBORO BEACH
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012
 (UNAUDITED)**

Other Post Employment Benefits

Schedule of Employer Contributions:

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1/2)	Covered Payroll (3)	UAAL as a Percentage of Covered Payroll ((2-1)/3)
April 1, 2011	\$ -	\$ 176,000	\$ 176,000	0.0%	\$ 1,574,000	11.2%



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

To the Town Commission
Town of Hillsboro Beach, Florida

We have audited the financial statements of the governmental activities, business type activities and the major fund of the Town of Hillsboro Beach, Florida ("Town") as of and for the fiscal year ended September 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted another matter involving the internal control over financial reporting and compliance that we have reported to management of the Town in a separate letter dated June 24, 2013.

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

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

Grand Associates

June 24, 2013



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

To the Town Commission
Town of Hillsboro Beach, Florida

We have audited the accompanying basic financial statements of the Town of Hillsboro Beach, Florida (the "Town") as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated June 24, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated June 24, 2013. Disclosures in that report should be considered in conjunction with this management letter.

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

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. This letter is intended for the information and use of the management, members of the Town Commission of the Town of Hillsboro Beach, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank 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 24, 2013

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2012-01 Fixed Asset Tracking: The Town was unable to provide support for the disposal of a fully depreciated fixed asset in the enterprise fund.

Recommendation: The Town should review its procedures for tracking of fixed assets.

Management response: The Town has established procedures to track all fixed assets. These procedures include a method for disposing of fully depreciated fixed assets.

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, 2011.

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

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

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2012, except as noted above.

4. Violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2012, except as noted above.

5. For matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:
 - a. Violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse.
 - b. Deficiencies in internal control that are not significant deficiencies.

REPORT TO MANAGEMENT (Continued)

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported, for the fiscal year ended September 30, 2012, except as noted above.

6. The name or official title and legal authority of the Town are disclosed in the notes to the financial statements.
7. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2012 financial audit report.
8. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Town Commission
Town of Hillsboro Beach, Florida

Compliance

We have audited Town of Hillsboro Beach, Florida's (the "Town") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the fiscal year ended September 30, 2012. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-02 and 2012-03.

Internal Control over Compliance

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

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

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

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Town Commission, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum & Associates

June 24, 2013

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
TOWN OF HILLSBORO BEACH, FLORIDA
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Homeland Security Pass-Through Program From:			
State of Florida Department of Community Affairs			
Disaster Grants - Public Assistance	97.036	52600308	\$ 785,248
<i>Total Department of Homeland Security</i>			<u>785,248</u>
Environmental Protection Agency Pass-Through Program From:			
Florida Department of Environmental Protection			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS98452211-0	3,922,941
<i>Total Environmental Protection Agency</i>			<u>3,922,941</u>
Department of Justice Pass-Through Program From:			
State of Florida Department of Law Enforcement			
Edward Byne Memorial Justice Assistance Grant Program	16.738	2012-JAGD-BROW- 9-C5-112	1,966
<i>Total Department of Justice</i>			<u>1,966</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,710,155</u></u>

See Notes to Schedule of Expenditures of Federal Awards

TOWN OF HILLSBORO BEACH, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**TOWN OF HILLSBORO BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

A. SUMMARY OF AUDIT RESULTS

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

Federal Program	CFDA No.
Disaster Grants - Public Assistance	97.036
Capitalization Grants for Drinking Water State Revolving Fund	66.468

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

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2012-01 Fixed Asset Tracking: The Town was unable to provide support for the disposal of a fully depreciated fixed asset in the enterprise fund.

Recommendation: The Town should review its procedures for tracking of fixed assets.

Management response: The Town has established procedures to track all fixed assets. These procedures include a method for disposing of fully depreciated fixed assets.

**TOWN OF HILLSBORO BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012
(Continued)**

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS

Compliance Findings

2012-02 Completion of Single Audit (CFDA No. 97.036): Article XII section C of the Town's agreement with the Florida Department of Community Affairs for pass through disaster relief funding (CFDA No. 97.036) states that the Town shall have a single audit completed within seven months after the close of its fiscal year if its total expenditures of federal financial assistance equal or exceed \$500,000.

Recommendation: The Town should implement a system to track the due dates of compliance requirements in the agreements it is party to and take the necessary steps to be in compliance with those requirements.

Management response: The Town has implemented a system to track compliance due dates and has taken the necessary steps to ensure all future requirements are submitted within the appropriate time frame.

2012-03 Submission of Certification of Applicability to Single Audit Act Reporting (CFDA No. 66.468) : Under the Drinking Water State Revolving Fund Construction Loan Agreement the Town was required to submit the Certification of Applicability to Single Audit Act Reporting to the State of Florida Department of Environmental Protection within four months following the end of the Town's fiscal year end. The certificate was not submitted within the time frame for the current fiscal year.

Recommendation: The Town should implement a system to track the due dates of compliance requirements in the agreements it is party to and take the necessary steps to be in compliance with those requirements.

Management response: The Town has implemented a system to track compliance due dates and has taken the necessary steps to ensure all future requirements are submitted within the appropriate time frame.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no findings in the prior year financial statement audit.

E. CORRECTIVE ACTION PLAN

The Town has implemented a system to track compliance due dates and has taken the necessary steps to ensure all future requirements are submitted within the appropriate time frame.

