

Town of Howey-in-the-Hills, Florida

Audit Report

September 30, 2016

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CPAs and Advisors

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September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Town Council
Town of Howey-in-the-Hills, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Howey-in-the-Hills, Florida (the "Town") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on Governmental Activities, Business-Type Activities and Utility Fund

As discussed in Note 7 to the financial statements, the Town has not implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The effects of this departure from accounting principles generally accepted in the United States of America on the governmental activities, business-type activities and the Utility Fund are not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects of not implementing the provisions of GASB Statement No. 45, as described in the preceding paragraph, 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 Utility Fund of the Town as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and aggregate remaining fund information as of September 30, 2016, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted the OPEB schedule of funding progress that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic

financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2017 on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town’s internal control over financial reporting and compliance.

Gainesville, Florida
_____, 2017

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Management's Discussion and Analysis

This discussion and analysis of the Town of Howey-in-the-Hill's financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the Town's financial statements, which follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains government-wide financial statements that report on the Town's activities as a whole and fund financial statements that report on the Town's individual funds.

Government-wide Financial Statements

The first financial statement is the Statement of Net Position. This statement includes all of the Town's assets, liabilities, and deferred outflows/inflows using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are recorded, regardless of when cash is received or paid. Net position – the difference between assets, liabilities, and deferred outflows/inflows – can be used to measure the Town's financial position.

The second financial statement is the Statement of Activities. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net position during the fiscal year. Over time, the increases or decreases in net position are useful indicators of whether the Town's financial health is improving or deteriorating. However, other non-financial factors, such as road conditions or changes in the tax base, must also be considered when assessing the overall health of the Town.

In these statements, the Town's activities are divided as follows:

- *Governmental activities* – Most of the Town's basic services are reported here, including administration, police services, road and bridge, and maintenance. Taxes and charges for services finance most of these activities.
- *Business-type activities* – These activities are financed in whole or in part by fees charged to external parties for goods or services. The activities of the water, sewer, refuse systems and stormwater services are reported as business-type activities.

Fund Financial Statements

Following the government-wide financial statements are the fund financial statements. They provide more detailed information about the Town's funds.

- *Governmental funds* – The Town's governmental funds are the General Fund, Taylor Memorial Cemetery, Law Enforcement Trust, Police Automation, Special Law Enforcement, Tree, and Impact Fees funds. These funds are accounted for using modified accrual accounting. Modified accrual accounting focuses on available cash and other financial assets that can readily be converted to cash. This provides a shorter-term view of the governmental fund's financial position. A reconciliation is provided with these statements, which helps to explain the difference between the fund financial statements and the government-wide financial statements.
- *Proprietary funds* – The Town's proprietary funds are the Utility and Stormwater Funds. Proprietary funds are reported using the accrual basis of accounting and, accordingly, there is a correlation between the amounts reported in the fund financial statements and the amounts reported in the government-wide financial statements.

Town of Howey-in-the-Hills, Florida

Management's Discussion and Analysis

The following tables present condensed, government-wide data about net position and changes in net position.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Non-capital assets	\$ 726,389	\$ 1,155,118	\$ 999,352	\$ 995,810	\$ 1,725,741	\$ 2,150,928
Capital assets	1,485,285	1,278,660	2,941,688	3,021,803	4,426,973	4,300,463
Total assets	2,211,674	2,433,778	3,941,040	4,017,613	6,152,714	6,451,391
Deferred outflows of resources						
Pension related	532,237	157,403	-	-	532,237	157,403
Liabilities						
Current liabilities	155,981	77,103	83,842	88,152	239,823	165,255
Long-term liabilities	271,607	75,783	2,222,397	2,355,158	2,494,004	2,430,941
Total liabilities	427,588	152,886	2,306,239	2,443,310	2,733,827	2,596,196
Deferred inflows of resources						
Pension related	11,295	-	-	-	11,295	-
Net position						
Net investment in capital assets	1,448,687	1,217,877	720,791	667,445	2,169,478	1,885,322
Restricted	87,097	235,465	-	-	87,097	235,465
Unrestricted	769,244	805,089	914,010	906,858	1,683,254	1,711,947
Total net position	\$ 2,305,028	\$ 2,258,431	\$ 1,634,801	\$ 1,574,303	\$ 3,939,829	\$ 3,832,734
Program revenues						
Charges for services	\$ 107,125	\$ 101,800	\$ 615,443	\$ 633,198	\$ 722,568	\$ 734,998
Operating grants & contributions	238,578	191,358	-	-	238,578	191,358
Capital grants & contributions	-	-	-	-	-	-
General revenues						
Property taxes	681,442	631,329	-	-	681,442	631,329
Franchise fees and utility taxes	222,539	206,736	27,599	27,989	250,138	234,725
Shared revenues	122,343	122,214	-	-	122,343	122,214
Other	33,401	76,358	-	-	33,401	76,358
Total revenues	1,405,428	1,329,795	643,042	661,187	2,048,470	1,990,982
Program expenses						
General government	333,075	392,407	-	-	333,075	392,407
Public safety	589,143	474,442	-	-	589,143	474,442
Physical environment	116,632	110,343	-	-	116,632	110,343
Transportation	208,933	94,935	-	-	208,933	94,935
Culture and recreation	104,677	151,522	-	-	104,677	151,522
Interest on long-term debt	6,371	8,772	-	-	6,371	8,772
Utility	-	-	577,504	589,226	577,504	589,226
Stormwater	-	-	5,040	5,040	5,040	5,040
Total expenses	1,358,831	1,232,421	582,544	594,266	1,941,375	1,826,687
Change in net position	46,597	97,374	60,498	66,921	107,095	164,295
Beginning net position	2,258,431	2,161,057	1,574,303	1,507,382	3,832,734	3,668,439
Ending net position	\$ 2,305,028	\$ 2,258,431	\$ 1,634,801	\$ 1,574,303	\$ 3,939,829	\$ 3,832,734

Management's Discussion and Analysis

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Governmental Activities

The governmental activities generated \$345,703 in program revenues and \$1,059,725 of general revenues, and incurred \$1,358,831 of program expenses. This resulted in a \$46,597 increase in net position.

Business-type Activities

Program revenues of the business-type activities were \$615,443 and general revenues were \$27,599 compared to expenses of \$582,544. This resulted in a \$60,498 increase in net position.

THE TOWN'S INDIVIDUAL FUNDS

General Fund

The General Fund's fund balance decreased by \$180,939, from \$663,282 to \$482,343.

Utility

The Utility Fund's net position increased by \$65,538, from \$1,461,598 to \$1,527,136.

BUDGETARY HIGHLIGHTS

There were no significant budget adjustments made during the year. Total revenues were below budget, and total expenditures exceeded the final budgeted amount by approximately \$115,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town had capital asset acquisitions during the year primarily for capital improvements. Please refer to a note to the accompanying financial statements entitled *Capital Asset Activity* for more detailed information about the Town's capital asset activity.

Debt Administration

The Town incurred no new debt during the year. Please refer to a note to the accompanying financial statements entitled *Long-term Obligations* for more detailed information about the Town's long-term debt activity.

ECONOMIC FACTORS

We are not currently aware of any conditions that are expected to have a significant effect on the Town's financial position or results of operations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Town Hall at 352-324-2290, Howey-in-the-Hills, Florida.

Town of Howey-in-the-Hills, Florida
Statement of Net Position
September 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and equivalents	\$ 678,854	\$ 848,054	\$ 1,526,908
Investment in state pool	17,823	-	17,823
Due from other governments	20,716	-	20,716
Prepays	8,996	-	8,996
Accounts receivable	-	36,690	36,690
Inventory	-	3,589	3,589
Restricted assets:			
Cash and equivalents	-	111,019	111,019
Capital assets:			
Non-depreciable	287,666	-	287,666
Depreciable, net	1,197,619	2,941,688	4,139,307
Total assets	2,211,674	3,941,040	6,152,714
Deferred outflows of resources			
Pension related	532,237	-	532,237
Total assets and deferred outflows of resources	2,743,911	3,941,040	6,684,951
Liabilities			
Accounts payable and accrued liabilities	155,981	48,707	204,688
Customer deposits	-	35,135	35,135
Noncurrent liabilities:			
Due within one year	39,185	118,973	158,158
Due in more than one year	17,313	2,103,424	2,120,737
Net pension liability	215,109	-	215,109
Total liabilities	427,588	2,306,239	2,733,827
Deferred inflows of resources			
Pension related	11,295	-	11,295
Total liabilities and deferred inflows of resources	438,883	2,306,239	2,745,122
Net position			
Net investment in capital assets	1,448,687	720,791	2,169,478
Restricted:			
Public safety	20,494	-	20,494
Physical environment	53,456	-	53,456
Culture and recreation	13,147	-	13,147
Unrestricted	769,244	914,010	1,683,254
Total net position	\$ 2,305,028	\$ 1,634,801	\$ 3,939,829

See accompanying notes.

Town of Howey-in-the-Hills, Florida

Statement of Activities
Year ended September 30, 2016

Functions/Programs	Program Revenues			Revenue and Changes in Net Position		Net (Expense) and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities						
General government	\$ 333,075	\$ 8,332	\$ -	\$ (324,743)	\$ -	\$ (324,743)
Public safety	589,143	87,735	1,000	(500,408)	-	(500,408)
Physical environment	116,632	2,395	-	(114,237)	-	(114,237)
Transportation	208,933	-	150,231	(58,702)	-	(58,702)
Culture and recreation	104,677	8,663	87,347	(8,667)	-	(8,667)
Interest on long-term debt	6,371	-	-	(6,371)	-	(6,371)
Total governmental activities	1,358,831	107,125	238,578	(1,013,128)	-	(1,013,128)
Business-type activities						
Utility	577,504	615,443	-	-	37,939	37,939
Stormwater	5,040	-	-	-	(5,040)	(5,040)
Total business-type activities	582,544	615,443	-	-	32,899	32,899
Total	\$ 1,941,375	\$ 722,568	\$ 238,578	\$ (1,013,128)	32,899	(980,229)
General revenues						
Property taxes				681,442	-	681,442
Franchise fees and utility taxes				222,539	27,599	250,138
Impact and developer fees				5,810	-	5,810
Shared revenues - unrestricted				122,343	-	122,343
Miscellaneous				27,591	-	27,591
Total general revenues				1,059,725	27,599	1,087,324
Change in net position				46,597	60,498	107,095
Net position - beginning of year				2,258,431	1,574,303	3,832,734
Net position - end of year				\$ 2,305,028	\$ 1,634,801	\$ 3,939,829

See accompanying notes.

Town of Howey-in-the-Hills, Florida

**Balance Sheet
Governmental Funds
September 30, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and equivalents	\$ 590,859	\$ 87,995	\$ 678,854
Investment in state pool	17,823	-	17,823
Due from other funds	-	70	70
Due from other governments	20,716	-	20,716
Prepays	8,996	-	8,996
Total assets	\$ 638,394	\$ 88,065	\$ 726,459
Liabilities			
Accounts payable and accrued liabilities	\$ 155,981	\$ -	\$ 155,981
Due to other funds	70	-	70
Total liabilities	156,051	-	156,051
Fund balances			
Nonspendable - prepaids	8,996	-	8,996
Restricted:			
Public safety	-	20,494	20,494
Physical environment	-	53,456	53,456
Culture and recreation	-	13,147	13,147
Unassigned	473,347	968	474,315
Total fund balances	482,343	88,065	570,408
Total liabilities and fund balances	\$ 638,394	\$ 88,065	\$ 726,459

See accompanying notes.

**Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2016**

Fund balances - total governmental funds	\$ 570,408
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in the governmental funds.	
Capital assets - net	1,485,285
The net pension liability is not reported in governmental funds.	(215,109)
Deferred outflows associated with pensions are not reported in the governmental funds.	532,237
Deferred inflows associated with pensions are not reported in the governmental funds.	(11,295)
Long-term liabilities are not reported in the governmental funds.	
Capital lease	(36,598)
Compensated absences	(19,900)
Net position of governmental activities	\$ 2,305,028

Town of Howey-in-the-Hills, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 951,687	\$ -	\$ 951,687
Permits, fees and special assessments	183,114	31,943	215,057
Intergovernmental	188,174	-	188,174
Charges for services	9,362	-	9,362
Judgments, fines and forfeits	9,917	1,564	11,481
Miscellaneous	27,248	2,421	29,669
Total revenues	1,369,502	35,928	1,405,430
Expenditures			
Current:			
General government	347,399	-	347,399
Public safety	488,741	2,465	491,206
Physical environment	107,963	-	107,963
Transportation	208,495	-	208,495
Culture and recreation	367,287	403	367,690
Debt service:			
Principal retirement	24,185	-	24,185
Interest	6,371	-	6,371
Total expenditures	1,550,441	2,868	1,553,309
Excess of revenues over (under) expenditures	(180,939)	33,060	(147,879)
Fund balances - beginning of year	663,282	55,005	718,287
Fund balances - end of year	\$ 482,343	\$ 88,065	\$ 570,408

See accompanying notes.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
Year ended September 30, 2016**

Net change in fund balances \$ (147,879)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives.

Acquisitions of capital assets	290,617
Current year depreciation expense	(83,992)

The repayment of debt principal is an expenditure in the governmental funds but has no effect on net position of governmental activities.

Principal payments	24,185
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The accounting for pension costs differs between governmental funds and governmental activities.

Change in net pension asset/liability	(394,973)
Change in deferred outflows related to pensions	374,834
Change in deferred inflows related to pensions	(11,295)

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.

Compensated absences	(4,900)
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Change in net position of governmental activities **\$ 46,597**

Town of Howey-in-the-Hills, Florida
Statement of Net Position
Proprietary Funds
September 30, 2016

	Business-type Activities		
	Enterprise Funds		
	Utility Fund	Nonmajor Stormwater Fund	Total Enterprise Funds
Current assets			
Cash and equivalents	\$ 819,332	\$ 28,722	\$ 848,054
Due from other funds	16,825	-	16,825
Accounts receivable, net	36,690	-	36,690
Inventory	3,589	-	3,589
Total current assets	876,436	28,722	905,158
Noncurrent assets			
Restricted cash and equivalents	111,019	-	111,019
Capital assets, net	2,845,920	95,768	2,941,688
Total noncurrent assets	2,956,939	95,768	3,052,707
Total assets	3,833,375	124,490	3,957,865
Current liabilities			
Accounts payable and accrued liabilities	48,707	-	48,707
Due to other funds	-	16,825	16,825
Customer deposits	35,135	-	35,135
Current portion of long-term liabilities	118,973	-	118,973
Total current liabilities	202,815	16,825	219,640
Noncurrent liabilities	2,103,424	-	2,103,424
Total liabilities	2,306,239	16,825	2,323,064
Net position			
Net investment in capital assets	625,023	95,768	720,791
Unrestricted	902,113	11,897	914,010
Total net position	\$ 1,527,136	\$ 107,665	\$ 1,634,801

See accompanying notes.

Town of Howey-in-the-Hills, Florida
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2016

	Business-type Activities Enterprise Funds		
	Utility Fund	Nonmajor Stormwater Fund	Total Enterprise Funds
Operating revenues			
User fees - water	\$ 453,950	\$ -	\$ 453,950
User fees - sanitation	161,493	-	161,493
Total operating revenues	615,443	-	615,443
Operating expenses			
Personal services	51,352	-	51,352
Operating expenses	337,214	-	337,214
Depreciation	126,429	5,040	131,469
Total operating expenses	514,995	5,040	520,035
Operating income (loss)	100,448	(5,040)	95,408
Nonoperating revenues (expenses)			
Utility service taxes	27,599	-	27,599
Interest income (expense)	(62,509)	-	(62,509)
Total nonoperating revenues (expenses)	(34,910)	-	(34,910)
Change in net position	65,538	(5,040)	60,498
Net position - beginning of year	1,461,598	112,705	1,574,303
Net position - end of year	\$ 1,527,136	\$ 107,665	\$ 1,634,801

See accompanying notes.

Town of Howey-in-the-Hills, Florida

**Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2016**

	Utility Fund	Nonmajor Stormwater Fund	Total Enterprise Funds
Operating activities			
Receipts from customers	\$ 621,532	\$ -	\$ 621,532
Payments to suppliers	(343,290)	-	(343,290)
Payments to employees	(50,652)	-	(50,652)
Net cash provided by operating activities	227,590	-	227,590
Noncapital financing activities			
Utility service taxes	27,599	-	27,599
Capital and related financing activities			
Principal paid on debt	(133,461)	-	(133,461)
Interest paid on debt	(63,818)	-	(63,818)
Acquisition of capital assets	(51,354)	-	(51,354)
Net cash used by capital and related financing activities	(248,633)	-	(248,633)
Investing activities			
Proceeds from investments	4,225	-	4,225
Change in cash and equivalents	10,781	-	10,781
Cash and equivalents - beginning of year	919,570	28,722	948,292
Cash and equivalents - end of year	\$ 930,351	\$ 28,722	\$ 959,073
Operating income (loss)			
Depreciation	126,429	5,040	131,469
Change in:			
Receivables	3,014	-	3,014
Operating payables	(6,076)	-	(6,076)
Customer deposits	3,075	-	3,075
Compensated absences	700	-	700
Net cash provided by operating activities	\$ 227,590	\$ -	\$ 227,590

See accompanying notes.

Town of Howey-in-the-Hills, Florida
Statement of Fiduciary Net Position
September 30, 2016

	Pension Trust Fund
<hr/>	
Assets	
Investment in FMIvT	\$ 1,296,213
Liabilities	-
<hr/>	
Net position	
Restricted for pension benefits	\$ 1,296,213
<hr/> <hr/>	

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See accompanying notes.

Town of Howey-in-the-Hills, Florida
Statement of Changes in Fiduciary Net Position
Year ended September 30, 2016

	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 71,139
Member	12,605
State	10,983
<hr/>	
Total contributions	94,727
<hr/>	
Investment income:	
Investment income	97,676
Less, investment management fee	(2,448)
<hr/>	
Net investment income	95,228
<hr/>	
Total additions	189,955
<hr/>	
Deductions	
Member benefits	77,149
Administrative expense	5,549
<hr/>	
Total deductions	82,698
<hr/>	
Change in net position	107,257
<hr/>	
Net position restricted for pension benefits	
Beginning of year	1,188,956
<hr/>	
Net position restricted for pension benefits	
End of year	\$ 1,296,213
<hr/> <hr/>	

See accompanying notes.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Howey-in-the-Hills, Florida (the “Town”), conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The Town is a Florida political subdivision established under the Laws of Florida, Chapter 10675(1925), with an elected mayor and four elected members of the Council.

As required by generally accepted accounting principles, the accompanying financial statements present the Town as a primary government. Component units are entities for which a primary government is considered to be financially accountable, or entities that would be misleading to exclude.

The Town is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The Town may also be financially accountable for governmental organizations that are fiscally dependent on it.

Blended component units, although legally separate entities, are in substance part of the Town's operations and, accordingly, data from these units would be combined with data of the Town. There are no blended component units included in the Town's reporting entity.

Discretely presented component units, on the other hand, would be reported in separate columns to emphasize that they are legally separate from the Town. There are no discretely presented component units included in the Town's financial reporting entity.

The Town did not participate in any joint ventures during the 2015 – 2016 fiscal year.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund 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 charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as *general revenues*.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, but all nonmajor funds are aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The Town reports the following major governmental fund:

General Fund – the primary operating fund, used to account for and report all activities not accounted for and reported in another fund.

The Town reports the following major enterprise fund:

Utility Fund – to account for the activities of the Town’s water, sewer and refuse system.

Additionally, the Town reports the following fiduciary fund:

Pension Trust Fund – to account for activities of the Town’s pension plan.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are 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 funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Certain intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the Town considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in State Pool

The Town invests surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the “State Pool”). The State Pool is administered by the Florida State Board of Administration (“SBA”), who provides regulatory oversight.

The State Pool has adopted operating procedures consistent with the requirements of GASB Statement No.79 and, accordingly, the Town’s investment in the State Pool is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

Pension Investments

Investments of the pension plan are stated at fair value.

Accounts Receivable

Receivables are stated at net realizable value, reduced by an allowance for uncollectible accounts of \$34,432 in the Utility Fund.

Inventory

Inventory of the Utility Fund is valued at cost under the first-in, first-out method.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at fair value at the date of contribution. The Town uses a capitalization threshold of \$1,000 for all classes of capital assets.

In accordance with GASB Statement No. 34, as amended, the Town has elected to report general infrastructure prospectively, effective October 1, 2003.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings	10 – 50
Improvements	15 – 50
Furniture, equipment and vehicles	3 – 15

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For its business-type activities, the Town’s policy is to capitalize construction period interest costs on projects funded specifically through debt financing. No interest costs were capitalized during 2016.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Police Officers’ Retirement Plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

The Town’s policy is to allow limited vesting of employee vacation pay and compensatory leave balances. A liability for accrued compensated absences of employees of the governmental funds has been accrued. Since this liability will not be liquidated with expendable available financial resources, the liability has not been reported in the governmental funds. A liability for compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements.

Property Taxes

The Lake County Tax Collector bills and collects property taxes for the Town.

Details of the Town’s tax calendar are presented below:

Lien date	January 1
Levy date	October 1
Discount period	November - February
No discount period	March
Delinquent date	April 1

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating expenses for proprietary funds 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 nonoperating revenues and expenses.

Restricted Net Position

In the accompanying statements of net position, *restricted net position* is subject to restriction beyond the Town's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

The statement of net position reports \$79,477 of net position restricted by enabling legislation relating to impact fees.

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

Fund Balance

The Town follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to classify fund balances for governmental funds into specifically defined classifications. The classifications comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

The fund balance classifications specified in GASB Statement No. 54 are as follows:

Nonspendable Fund Balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the Town's highest level of decision-making authority, which is an ordinance of the Town Council. Committed amounts cannot be used for any other purpose unless the Town Council removes those constraints by taking the same type of action.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Town Council or (b) a body or official to which the Town Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the General Fund.

The Town’s policy is to expend resources in the following order: restricted, committed, assigned, and unassigned.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

The Town’s deposits are with qualified public depositories pursuant to Chapter 280, Florida Statutes, and are entirely insured or collateralized pursuant to the Florida Public Deposits Act.

Investments – Other than Pension

The Town invests excess public funds pursuant to the guidelines established in Section 218.415, Florida Statutes. Accordingly, the Town is authorized to invest excess public funds in the following instruments: the Local Government Trust Fund; Securities and Exchange Commission registered money market funds with the highest credit quality rating; savings accounts and certificates of deposits in qualified public depositories; and direct obligations of the U.S. Treasury.

The Town’s investment in the State Pool exposes it to credit risk. The Town does not have a formal investment policy relating to that risk, which is described as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Pool is rated by Standard & Poors and has a rating at September 30, 2016, of AAAM.

Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Pension Investments

The Town is a participating employer in the Florida Municipal Pension Trust Fund (FMPTF), which is sponsored by the Florida League of Cities, Inc. The Town’s pension plan assets are invested by the FMPTF through the Florida Municipal Investment Trust (FMIvT), which is an external investment pool. The fair value of the position in the pool is equal to the value of the Town’s beneficial interest in the pool’s portfolio. The pool is not registered with the Securities and Exchange Commission.

The Town’s beneficial interest in the FMIvT portfolio is summarized below:

Cash and Money Market	\$ 10,370
FMIvT Broad Market High Quality Bond Portfolio	202,209
FMIvT Core Plus	308,499
FMIvT High Quality Growth Portfolio	98,512
FMIvT Large Cap Diversified Value Portfolio	106,289
FMIvT Russell 1000 Enhanced Index Portfolio	296,833
FMIvT Diversified Small to Mid Cap Equity Portfolio	146,472
FMIvT International Equity Portfolio	127,029
<hr/>	
Total	<u>\$ 1,296,213</u>

Fair Value Measurements

Since the Town’s pension investments are in an external investment pool, its investments are not required to be categorized within the fair value hierarchy.

Credit Risk

Generally, credit risk is 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. The Town’s investment policies limit investments in bonds to those rated in the top four quality grades by a major rating service. The Bond Portfolio is rated by Fitch and has a rating at September 30, 2016, of AA/V4.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Town’s investment policies do not provide specific restrictions as to maturity length of investments. The weighted average maturity of the Bond Portfolio is 5.90 years.

Foreign Currency Risk

The Town’s pension funds contain investments in foreign stock mutual funds; however, all of the investments are denominated in U.S. Dollars and are not exposed to foreign currency risk.

Notes to Financial Statements

NOTE 3 – INTERFUND BALANCES

At September 30, 2016, interfund balances were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 70
Cemetery Fund	70	-
Law Enforcement Trust Fund	-	-
Utility Fund	16,825	-
Stormwater Fund	-	16,825
Total	\$ 16,895	\$ 16,895

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Notes to Financial Statements

NOTE 4 – CAPITAL ASSET ACTIVITY

During the year ended September 30, 2016, the following changes in capital assets occurred:

Governmental Activities	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets, not being depreciated:				
Construction in process	\$ 14,763	\$ -	\$ 14,763	\$ -
Land and improvements	263,488	24,178	-	287,666
Total capital assets, not being depreciated	278,251	24,178	14,763	287,666
Capital assets, being depreciated:				
Buildings and improvements	496,943	29,030	-	525,973
Improvements	1,108,671	245,184	-	1,353,855
Equipment and machinery	369,328	6,988	3,769	372,547
Assets under capital lease	102,715	-	-	102,715
Total capital assets, being depreciated	2,077,657	281,202	3,769	2,355,090
Less accumulated depreciation for:				
Buildings and improvements	225,317	19,227	-	244,544
Improvements	447,305	36,306	-	483,611
Equipment and machinery	362,082	2,780	3,769	361,093
Assets under capital lease	42,544	25,679	-	68,223
Total accumulated depreciation	1,077,248	83,992	3,769	1,157,471
Total capital assets being depreciated, net	1,000,409	197,210	-	1,197,619
Governmental activities capital assets, net	\$ 1,278,660	\$ 221,388	\$ 14,763	\$ 1,485,285

Notes to Financial Statements

NOTE 4 – CAPITAL ASSET ACTIVITY (CONTINUED)

Business-type Activities	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets, being depreciated:				
Buildings and improvements	\$ 7,693	\$ -	\$ -	\$ 7,693
Machinery and equipment	277,588	6,039	2,815	280,812
Improvements - water system	4,180,460	45,315	-	4,225,775
Total capital assets, being depreciated	4,465,741	51,354	2,815	4,514,280
Less accumulated depreciation for:				
Buildings and improvements	7,693	-	-	7,693
Machinery and equipment	261,427	9,016	2,815	267,628
Improvements - water system	1,174,818	122,453	-	1,297,271
Total accumulated depreciation	1,443,938	131,469	2,815	1,572,592
Business-type activities capital assets, net	\$ 3,021,803	\$ (80,115)	\$ -	\$ 2,941,688

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 8,391
Public safety	66,976
Physical environment	8,085
Transportation	438
Culture and recreation	102
Total depreciation expense - governmental activities	\$ 83,992

Business-type activities:	
Utility	\$ 126,429
Stormwater	5,040
Total depreciation expense - business-type activities	\$ 131,469

Notes to Financial Statements

NOTE 5 – LONG-TERM OBLIGATIONS

Governmental Activities

	Balance October 1, 2015			Balance September 30, 2016		Due Within One Year
		Additions	Deductions			
Capital lease obligation	\$ 60,783	\$ -	\$ 24,185	\$ 36,598	\$ 24,185	
Compensated absences	15,000	23,300	18,400	19,900	15,000	
Total	\$ 75,783	\$ 23,300	\$ 42,585	\$ 56,498	\$ 39,185	

Capital Lease

The Town has agreements with a financing corporation to acquire vehicles at interest rates of 7.00% and 13.24%. The aggregate historical cost of the vehicles is \$102,715.

The future minimum lease payments and the net present value of the minimum lease payments as of September 30, 2016, are as follows:

Year ending September 30,	Amount
2017	\$ 30,556
2018	10,408
Less interest	(4,366)
	\$ 36,598

Notes to Financial Statements

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Business-type Activities

	Balance October 1, 2015			Balance September 30, 2016		Due Within One Year
	2015	Additions	Deductions	2016		
Revenue refunding note	\$ 244,473	\$ -	\$ 24,613	\$ 219,860	\$ 25,806	
State revolving fund loan	2,109,885	-	108,848	2,001,037	92,167	
Compensated absences	800	1,100	400	1,500	1,000	
Total	\$2,355,158	\$ 1,100	\$ 133,861	\$ 2,222,397	\$ 118,973	

Revenue Refunding Note

\$285,000 Revenue Refunding Note, Series 2013. Interest and principal are payable monthly in the amount of \$2,997. The interest rate is 4.75%.

State Revolving Fund Loan

Payable in semi-annual installments of \$81,270 on April 15 and October 15, including interest ranging from 2.12 - 2.71%. The debt's covenants require pledged revenues adequate to cover the payments due in any fiscal year. The Revenue Refunding Note, Series 2013 is senior to this obligation.

Aggregate Maturities

Year ending September 30,	Revenue Refunding Note		State Revolving Fund Note	
	Principal	Interest	Principal	Interest
2017	\$ 25,806	\$ 10,158	\$ 92,167	\$ 70,373
2018	27,057	8,907	95,442	67,098
2019	28,372	7,592	98,833	63,707
2020	29,749	6,215	102,345	60,196
2021	31,193	4,771	105,981	56,559
2022-2026	77,683	5,117	589,137	223,563
2027-2031	-	-	701,508	111,192
2032-2033	-	-	215,624	8,342
Totals	\$ 219,860	\$ 42,760	\$ 2,001,037	\$ 661,030

Notes to Financial Statements

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Pledged Revenues

The Town has pledged future water customer revenues, net of specified operating expenses, to repay approximately \$220,000 of the water revenue refunding note and \$2,000,000 of the State Revolving Fund Loan. The debt was used to construct and improve the Town's water system and is payable through 2033. The total principal and interest remaining to be paid on the debt secured by pledged revenues is approximately \$2,925,000. For 2016, the Town paid approximately \$199,000 of principal and interest on the water revenue refunding note and State Revolving Fund loan. Pledged net revenues for the water system were approximately \$178,000.

Debt Covenants

For the year ended September 30, 2016, the pledged revenues were not sufficient to meet the covenant requirement to exceed 1.15 times the State Revolving Fund Loan debt service due in the fiscal year.

NOTE 6 – PENSION PLAN

Plan Description

The Town sponsors a public employee retirement system (the "System") administered by the Town of Howey-in-the-Hills, Pension Board of Trustees. The System administers the Police Officers' Retirement Plan (the "Plan") an employee contributory single-employer defined benefit pension plan. Members of the Plan include all sworn police officers of the Town. The Plan's basis of accounting is accrual; benefits and refunds of the Plan are recognized when due and payable in accordance with the terms of the Plan.

The Town does not issue separate financial statements for the Plan.

Benefits Provided

Officers attaining the age of 55 who have completed 10 or more years of creditable service or attaining the age of 52 who have completed 25 years of creditable service are entitled to monthly benefits of 3 percent of their average final compensation times years of credited service. The plan permits early retirement at the completion of 10 years of contributing service and attaining the age of 50. Active officers who retire disabled with disability that occurs in the line of duty and have 10 years of credited and contributing service shall receive the greater of 42 percent of average financial compensation or the accrued benefit actuarially reduced. Disability benefits are paid for 10 years certain or life or until recovery from disability. If an active officer dies before retirement eligibility, his or her beneficiary receives a refund of the officer's contributions to the Plan. If the officer dies prior to retirement but has at least 10 years of contributing service, his or her beneficiary is entitled to either early or normal retirement benefits.

Notes to Financial Statements

NOTE 6 – PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

At September 30, 2016, the following employees were covered by the benefit terms:

Active employees	5
Inactive employees receiving	3
	8

Contributions

The contribution requirements of plan members and the Town are established and approved by the Town Council in accordance with applicable State statute. In addition, State contributions are also made to the Plan on behalf of the Town.

For the year ended September 30, 2016, the active employee contribution rate was 5.0% of pensionable earnings. The Town’s contribution rate, actuarially determined, was 26.26% of pensionable earnings, and the State’s contribution rate was 4.37%.

Net Pension Liability

The Town’s net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of October 1, 2014, rolled forward to September 30, 2016.

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.92%
Salary increases	4.00%
Cost-of-living increases	None assumed
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates were based on sex-distinct rates set forth in the RP-2000 Mortality Table for annuitants, projected to 2015 by Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Notes to Financial Statements

NOTE 6 – PENSION PLAN (CONTINUED)

Investment category	Target Allocation	Expected Long-term Real Return
Core bonds	16%	0.58%
Multi-sector	24%	1.08%
U.S. large cap equity	39%	6.08%
U.S. small cap equity	11%	6.83%
Non-U.S. equity	10%	6.83%
 Total or weighted arithmetic average	 100%	 4.08%

Discount Rate

The discount rate used to measure the total pension liability was 7.00%, which was a decrease of 2.08% from the discount rate used to determine the prior year’s total pension liability. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the Town and State contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

For the year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.18%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Notes to Financial Statements

NOTE 6 – PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of October 1, 2015	\$ 1,009,092	\$ 1,188,956	\$ (179,864)
Changes for the year:			
Service cost	43,667	-	43,667
Expected interest growth	70,706	83,557	(12,851)
Unexpected investment income	-	14,119	(14,119)
Demographic experience	200,034	-	200,034
Employer contributions	-	82,122	(82,122)
Employee contributions	-	12,605	(12,605)
Benefit payments and refunds	(77,149)	(77,149)	-
Administrative expenses	-	(7,997)	7,997
Assumption changes	264,972	-	264,972
Balances as of September 30, 2016	\$ 1,511,322	\$ 1,296,213	\$ 215,109

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Town’s net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 377,756	\$ 215,109	\$ 77,066

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the Town recognized pension expense of \$113,556.

At September 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Notes to Financial Statements

NOTE 6 – PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on pension plan investments	\$ 63,891	\$ 11,295
Differences between expected and actual experience	237,345	-
Changes to assumptions	231,001	-
Total	\$ 532,237	\$ 11,295

Amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,	
2017	\$ 87,348
2018	87,348
2019	87,348
2020	66,052
2021	68,875
Thereafter	123,971
Total	\$ 520,942

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS

The Town provides other postemployment benefits (OPEB) to its employees by providing retirement healthcare benefits.

The Town has not implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses and related liabilities, note disclosures and required supplementary information.

NOTE 8 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in 2017. The statements address:

- Certain pension issues;
- Other postemployment benefit (OPEB) plans
- Tax abatement disclosures; and
- Blending certain component units.

The Town is currently evaluating the effects that these statements will have on its 2017 financial statements.

Required Supplementary Information

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Town of Howey-in-the-Hills, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year ended September 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 951,821	\$ 954,058	\$ 951,687	\$ (2,371)
Permits, fees and special assessments	161,522	164,047	183,114	19,067
Intergovernmental	179,464	272,014	188,174	(83,840)
Charges for services	10,590	11,590	9,362	(2,228)
Judgments, fines and forfeits	9,800	8,050	9,917	1,867
Miscellaneous	9,208	25,150	27,248	2,098
Total revenues	1,322,405	1,434,909	1,369,502	(65,407)
Expenditures				
Current:				
General government	434,165	405,089	347,399	57,690
Public safety	527,928	537,748	488,741	49,007
Physical environment	75,186	80,388	107,963	(27,575)
Transportation	259,769	155,498	208,495	(52,997)
Culture and recreation	194,234	256,186	367,287	(111,101)
Debt service:				
Principal retirement	-	-	24,185	(24,185)
Interest	-	-	6,371	(6,371)
Total expenditures	1,491,282	1,434,909	1,550,441	(115,532)
Excess of revenues over (under) expenditures	(168,877)	-	(180,939)	(180,939)
Fund balances - beginning of year	168,877	-	663,282	663,282
Fund balances - end of year	\$ -	\$ -	\$ 482,343	\$ 482,343

Notes to Budgetary Comparison Schedule

The budget was prepared on a basis that did not differ materially from generally accepted accounting principles.

The Town's procedures in establishing the budgetary data reflected in the financial statements are generally as follows:

- In July, the Lake County Property Appraiser notifies the Town as to its tentative property tax assessed valuation, from which the Town can estimate the property tax resources available and the limitations thereon.
- During August, budget workshops are held to determine proposed expenditures and the means of financing them. The Council then adopts the proposed property tax millage rate and sets the date, time and place of the first public hearing.
- A public hearing on the tentative budget is held. Within fifteen (15) days of the first public hearing, the Town advertises its intention to finalize its budget and millage rate, and a date, time, and place for a public hearing. The second public hearing is convened several days after the final advertisement, at which time the final budget and millage are adopted.
- Appropriations lapse at year-end.
- The fund is the legal level of control.

Supplementary Information

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Town of Howey-in-the-Hills, Florida
Schedule of Changes in Net Pension Liability and Related Ratios
Police Officers' Plan
Last 10 Fiscal Years

	2016	2015
Total pension liability		
Service cost	\$ 43,667	\$ 9,782
Interest	70,706	86,408
Differences between expected and actual experience	200,034	81,475
Benefit payments, including refunds of employee contributions	(77,149)	(138,134)
Assumption changes	264,972	-
Net change in total pension liability	502,230	39,531
Total pension liability - beginning of year	1,009,092	969,561
Total pension liability - end of year	\$ 1,511,322	\$ 1,009,092
Plan fiduciary net position		
Contributions - employer	\$ 82,122	\$ 65,002
Contributions - employee	12,605	10,401
Net investment income	95,228	4,532
Benefit payments, including refunds of employee contributions	(77,149)	(138,134)
Administrative expense	(5,549)	(12,076)
Net change in plan fiduciary net position	107,257	(70,275)
Plan fiduciary net position - beginning of year	1,188,956	1,259,231
Plan fiduciary net position - end of year	\$ 1,296,213	\$ 1,188,956
Net pension liability (asset) - end of year	\$ 215,109	\$ (179,864)
Plan fiduciary net position as a percentage of the total pension liability	85.77%	117.82%
Covered-employee payroll	\$ 220,740	\$ 220,740
Net pension liability (asset) as a percentage of covered-employee payroll	97.45%	-81.48%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which it is available will be presented.



**Town of Howey-in-the-Hills, Florida
Schedule of Investment Returns
Police Officers' Plan
Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	8.18%	0.37%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for those years for which it is available will be presented.

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Town of Howey-in-the-Hills, Florida

Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2016

	Taylor Memorial Cemetery Fund		Law Enforcement Trust Fund		Police Automation Fund		Special Law Enforcement Trust Fund		Tree Fund		Impact Fees Fund		Total Nonmajor Governmental Funds	
Assets														
Cash and equivalents	\$	4,064	\$	968	\$	62	\$	2,434	\$	990	\$	79,477	\$	87,995
Due from other funds		70		-		-		-		-		-		70
Total assets	\$	4,134	\$	968	\$	62	\$	2,434	\$	990	\$	79,477	\$	88,065
Liabilities														
Accounts payable and accrued liabilities	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Due to other funds		-		-		-		-		-		-		-
Total liabilities		-		-		-		-		-		-		-
Fund balances														
Restricted:														
Public safety		-		-		62		2,434		-		17,998		20,494
Physical environment		4,134		-		-		-		990		48,332		53,456
Culture and recreation		-		-		-		-		-		13,147		13,147
Unassigned		-		968		-		-		-		-		968
Total fund balances		4,134		968		62		2,434		990		79,477		88,065
Total liabilities and fund balances	\$	4,134	\$	968	\$	62	\$	2,434	\$	990	\$	79,477	\$	88,065

Town of Howey-in-the-Hills, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended September 30, 2016

	Taylor Memorial Cemetery Fund		Law Enforcement Trust Fund		Police Automation Fund		Special Law Enforcement Trust Fund		Tree Fund		Impact Fees Fund		Total Nonmajor Governmental Funds	
Revenues														
Permits, fees and special assessments	\$	-	\$	-	\$	-	\$	-	\$	-	\$	31,943	\$	31,943
Judgments, fines and forfeits		-		1,564		-		-		-		-		1,564
Miscellaneous		2,421		-		-		-		-		-		2,421
Total revenues		2,421		1,564		-		-		-		31,943		35,928
Expenditures														
Current:														
Public safety		-		-		2,465		-		-		-		2,465
Culture and recreation		-		-		-		-		-		403		403
Total expenditures		-		-		2,465		-		-		403		2,868
Excess of revenues over (under) expenditures		2,421		1,564		(2,465)		-		-		31,540		33,060
Fund balances - beginning of year		1,713		(596)		2,527		2,434		990		47,937		55,005
Fund balances - end of year	\$	4,134	\$	968	\$	62	\$	2,434	\$	990	\$	79,477	\$	88,065

**Additional Elements Required by the Rules
of the Auditor General**

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MANAGEMENT LETTER

The Honorable Mayor and
Town Council
Town of Howey-in-the-Hills, Florida

We have audited the financial statements of the Town of Howey-in-the-Hills, Florida (the "Town") as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated _____, 2017. That report should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report. These requirements of the Rules of the Auditor General are addressed in the Schedule of Findings that accompanies this letter.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the Town has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). 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 management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

Annual Financial Report

As required by the Rules of the Auditor General, we determined that the 2015-2016 annual financial report was filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, and is in substantial agreement with the audit report for the fiscal year ended September 30, 2016.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the Mayor and Town Council, management, and the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Gainesville, Florida

_____, 2017

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INDEPENDENT ACCOUNTANT’S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

The Honorable Mayor and
Town Council
Town of Howey-in-the-Hills, Florida

We have examined the Town of Howey in the Hill’s (the “Town”) compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year to September 30, 2016. Management of the Town is responsible for the Town’s compliance with the specific requirements. Our responsibility is to express an opinion on the Town’s compliance with the specific requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Town complied, in all material respects, with the specified requirements references above. An examination involves performing procedures to obtain evidence about whether the Town complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Town complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Gainesville, Florida
_____, 2017

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

The Honorable Mayor and
Town Council
Town of Howey-in-the-Hills, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Howey-in-the-Hills, Florida (the "Town"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated _____, 2017. Our opinions on the financial statements of the governmental activities, the business-type activities, and the Utility Fund were qualified because the Town did not implement the accounting and financial reporting requirements of GASB Statement No. 45.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings as item 2016-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2016-002.

Town’s Response to Findings

The Town’s response to the findings identified in our audit is described in its accompanying letter of response. The Town’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Gainesville, Florida
_____, 2017

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Schedule of Findings

- 2016-001 (Reported in previous audit reports as items 2015-001 and 2013-001.)
- Condition** – Generally accepted auditing standards require that an auditor report a finding when it is necessary for the auditor to assist with the preparation of a government’s financial statements. As part of the audit process, we proposed material adjustments to the Town’s financial statements. It was also necessary for us to assist with the preparation of the Town’s financial statements. Our proposed adjustments were accepted by management, enabling the financial statements to be fairly presented in conformity with generally accepted accounting principles.
- Recommendation** – The Town should consider and evaluate the costs and benefits of improving internal controls relative to the financial reporting process.
- 2016-002
- Condition** – The terms of the Town’s State Revolving Fund loan require that the Utility Fund generate pledged revenues equal to or exceeding 1.15 times the debt service due in the fiscal year. For the year ended September 30, 2016, the Town did not meet this requirement.
- Recommendation** – We recommend that the Town monitor the financial operations of the Utility Fund and amend rates as necessary to meet the loan covenants.
- 2016-003
- Condition** – The budget was over expended by approximately \$115,000.
- Recommendation** – Resources were available to cover the over-expenditure; however, the budget position should be closely monitored to ensure that actual expenditures do not exceed budgeted expenditures.