

**TOWN OF HYPOLUXO, FLORIDA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2018**

**TOWN OF HYPOLUXO, FLORIDA**

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Hypoluxo, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Hypoluxo (the "Town") as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Hypoluxo as of September 30, 2018, and the respective changes in financial position thereof for the fiscal year then 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 and budgetary comparison 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.

### *Other Information*

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

The selected trend information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2019, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

We have also issued our report dated February 8, 2019, on our consideration of the Town's compliance with the requirements of Section 218.415, Florida Statutes, as required by Rule 10.556(10) of the Auditor General of the State of Florida. The purpose of that report is to provide an opinion based on our examination conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.



February 8, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Hypoluxo, Florida's (the "Town") financial accomplishments provides an overview of the Town's financial activities for the fiscal year ended September 30, 2018. 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 themselves.

### FINANCIAL HIGHLIGHTS

The assets of the Town exceeded its liabilities at the close of the fiscal year ended September 30, 2018 by \$4,746,957 (net position). Of this amount, \$3,498,879 (unrestricted net position) may be used to meet the Town's ongoing obligations to residents.

The change in the Town's total net position in comparison with the prior fiscal year was \$165,153, an increase. The key components of the Town's net position and change in net position are reflected in the table in the government-wide financial analysis section.

At September 30, 2018, the Town's governmental funds reported combined ending fund balances of \$3,566,483, an increase of \$304,848 in comparison with the prior fiscal year. Of that amount, \$42,572 is assigned for capital projects; \$224,843 is restricted for infrastructure projects and \$3,299,068 is unassigned and available for spending at the Town's discretion.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes, grants and special assessments (governmental activities) and other functions that are intended to recover all or a significant portion of their costs through user fees. The Town does not have any business-type activities. The governmental activities of the Town include operation and management functions (general government, public safety, physical environment, and human resources) and capital project.

#### Fund Financial Statements

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 are governmental funds.

## OVERVIEW OF FINANCIAL STATEMENTS (Continued)

### 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 two governmental funds for external reporting. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital projects fund, all of which are considered to be major funds.

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 the budget.

### Notes to the Financial Statements

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

	NET POSITION	
	SEPTEMBER 30,	
	2018	2017
Assets, excluding capital assets	\$ 3,761,910	\$ 3,487,114
Capital assets, net of depreciation	1,023,235	1,123,322
Total assets	<u>4,785,145</u>	<u>4,610,436</u>
Liabilities, excluding long-term liabilities	31,487	18,303
Long-term liabilities	6,701	10,329
Total liabilities	<u>38,188</u>	<u>28,632</u>
Net position		
Net investment in capital assets	1,023,235	1,123,322
Restricted for infrastructure projects	224,843	100,552
Unrestricted	3,498,879	3,357,930
Total net position	<u>\$ 4,746,957</u>	<u>\$ 4,581,804</u>

A portion of the Town's net position reflects its investment in capital assets (e.g. land, building, equipment and improvements). The Town uses these capital assets in the operation of the Town; therefore, they are not available for future spending. An additional portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the Town's ongoing obligations.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	CHANGES IN NET POSITION	
	FOR THE FISCAL YEAR ENDED SEPTEMBER 30,	
	2018	2017
Program revenues		
Charges for service	\$ 163,269	\$ 69,016
Operating grants and contributions	202,334	4,211
General revenues		
Property taxes	1,057,835	1,079,850
Other revenues and interest	643,833	767,937
Total revenues	<u>2,067,271</u>	<u>1,921,014</u>
Expenses:		
General government	211,495	254,814
Public safety	1,147,516	1,041,691
Physical environment	288,770	237,097
Human resources	254,337	225,396
Interest on long-term debt	-	8,849
Total expenses	<u>1,902,118</u>	<u>1,767,847</u>
Change in net position	165,153	153,167
Net position - beginning	4,581,804	4,428,637
Net position - ending	<u>\$ 4,746,957</u>	<u>\$ 4,581,804</u>

As noted above and in the statement of activities, the cost of all governmental activities during the fiscal year ended September 30, 2018 was approximately \$1.9 million. The majority of these activities were financed through general revenues of approximately \$1.7 million, which consist primarily of ad valorem, utility and other taxes. Approximately \$366,000 of the total cost was paid by program revenues, which consist primarily of licenses and permits, special assessments, and other revenue.

### FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,566,483. Approximately 93% constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance (aside from assigned balances which are technically unrestricted) is either in non-spendable form or restricted and is not available for new spending.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,299,068. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Unassigned fund balance represents approximately 190% of total general fund expenditures.

## BUDGETING AND OPERATING 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 the budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Council. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2018.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Asset

At September 30, 2018, the Town had \$2,629,940 invested in land, equipment and furnishings, building and improvements, and park improvements. Of this amount, \$1,606,705 in accumulated depreciation has been taken, which resulted in a net book value of \$1,023,235. More detailed information about the Town's capital assets is presented in the notes of the financial statements.

## ECONOMIC FACTORS

The Town's revenues are comprised of 50% of ad valorem property taxes. Florida has an exemption from this taxation of up to \$50,000, the first \$25,000 of the assessed value, and up to \$25,000 on the assessed value between \$50,000 and \$75,000, excluding school Town taxes. In addition, state law allows a city or county to enact a local ordinance allowing homeowners over 65 and who have income less than \$24,214 an additional exemption of \$25,000 of the assessed value. As of September 30, 2018, this option has not been utilized by the Town. An amendment to the Florida Constitution further limits homestead property to a maximum of 3% increase in assessed value per year, or less, if inflation is less. An amendment to the Florida Constitution further limits homestead property for active military and coastguard personnel and provides an additional homestead property tax exemption by law for those members deployed in the previous year on active duty outside the United States in support of military operations designated by the Legislature. The exempt amount will be based upon the number of days in the previous calendar year that the person was deployed on active duty outside the United States in support of military operations designated by the Legislature. The amendment took effect January 1, 2011.

Town anticipates various project being started for the subsequent fiscal year. In addition, it is anticipated that general operations of the Town will increase.

## CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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. If you have questions about this report or need additional financial information, contact the Town of Hypoluxo, 7580 South Federal Highway, Hypoluxo, Florida 33462.



**TOWN OF HYPOLUXO, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018**

<b>ASSETS</b>	
Cash	\$ 873,192
Investments	2,667,648
Intergovernmental receivable	44,290
Assessments receivable, long term	163,941
Restricted assets:	
Intergovernmental receivable	12,839
Capital assets:	
Depreciable assets, net of accumulated depreciation	804,909
Nondepreciable assets	218,326
Total assets	<u>4,785,145</u>
 <b>LIABILITIES</b>	
Accounts payable	21,373
Unearned revenue	10,114
Non-current liabilities:	
Due in more than one year	6,701
Total liabilities	<u>38,188</u>
 <b>NET POSITION</b>	
Investment in capital assets	1,023,235
Restricted for infrastructure projects	224,843
Unrestricted	3,498,879
Total net position	<u>\$ 4,746,957</u>

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Primary government:				
Governmental activities:				
General government	\$ 211,495	\$ 163,269	\$ -	\$ (48,226)
Public safety	1,147,516	-	-	(1,147,516)
Physical environment	288,770	-	202,334	(86,436)
Human resources	254,337	-	-	(254,337)
Total governmental activities	1,902,118	163,269	202,334	(1,536,515)
General revenues:				
Taxes:				
Ad valorem taxes				1,057,835
Utility taxes				252,440
Franchise taxes				59,679
Other taxes				298,165
Unrestricted investment earnings				33,549
Total general revenues				1,701,668
Change in net position				165,153
Net position - beginning				4,581,804
Net position - ending				\$ 4,746,957

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
<b>ASSETS</b>			
Cash	\$ 697,036	\$ 176,157	\$ 873,193
Investments	2,667,648	-	2,667,648
Special assessments receivable	163,941	-	163,941
Intergovernmental receivable	44,290	12,839	57,129
Due from other fund	-	78,419	78,419
Total assets	<u>\$ 3,572,915</u>	<u>\$ 267,415</u>	<u>\$ 3,840,330</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 21,373	\$ -	\$ 21,373
Due to other funds	78,419	-	78,419
Unearned revenue	10,114	-	10,114
Total liabilities	<u>109,906</u>	<u>-</u>	<u>109,906</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - special assessments	163,941	-	163,941
Total deferred inflows of resources	<u>163,941</u>	<u>-</u>	<u>163,941</u>
<b>Fund balances:</b>			
Restricted for:			
Infrastructure projects	-	224,843	224,843
Assigned for:			
Capital projects	-	42,572	42,572
Unassigned	3,299,068	-	3,299,068
Total fund balances	<u>3,299,068</u>	<u>267,415</u>	<u>3,566,483</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,572,915</u>	<u>\$ 267,415</u>	<u>\$ 3,840,330</u>

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018**

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

Fund balance in total governmental funds		\$ 3,566,483
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net position includes those capital assets, net of any accumulated depreciation, in the net position of the government as a whole.</p>		
Cost of capital assets	2,629,939	
Accumulated depreciation	<u>(1,606,705)</u>	1,023,234
<p>Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund financial statements. All liabilities, both current and long-term, are reported in the government-wide financial statements.</p>		
		(6,701)
<p>Assets recorded in the governmental fund financial statements that are not available to pay for the current-period expenditures are unavailable revenue in the governmental funds.</p>		
		163,941
Net position of governmental activities		<u>\$ 4,746,957</u>

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	Major Funds		Total Governmental Funds
	General	Capital Projects	
<b>REVENUES</b>			
Ad valorem taxes	\$ 1,057,835	\$ -	\$ 1,057,835
Utility taxes	252,440	-	252,440
Other taxes	237,708	-	237,708
Franchise taxes	59,679	-	59,679
Licenses and permits	163,144	-	163,144
Fines and forfeitures	125	-	125
State revenue sharing	60,457	-	60,457
Sales infrastructure surtax	-	194,356	194,356
Special assessments	51,214	-	51,214
Interest and other revenues	19,140	14,409	33,549
Total revenues	<u>1,901,742</u>	<u>208,765</u>	<u>2,110,507</u>
<b>EXPENDITURES</b>			
Current:			
General government	187,966	-	187,966
Public safety	1,147,516	-	1,147,516
Physical environment	147,813	64,399	212,212
Human resources	257,965	-	257,965
Total expenditures	<u>1,741,260</u>	<u>64,399</u>	<u>1,805,659</u>
Excess (deficiency) of revenues over (under) expenditures	160,482	144,366	304,848
Fund balances - beginning	<u>3,138,586</u>	<u>123,049</u>	<u>3,261,635</u>
Fund balances - ending	<u>\$ 3,299,068</u>	<u>\$ 267,415</u>	<u>\$ 3,566,483</u>

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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

Net change in fund balances - total governmental funds	\$ 304,848
Depreciation on capital assets is not recognized in the governmental fund financial statements but is reported as an expense in the statement of activities.	(100,087)
Special assessments reported as revenues on the fund financial statements in the current year but were reported in the statement of activities in prior fiscal years.	(43,236)
The change in compensated absences reported in the statement of activities and are not reported in governmental funds.	<u>3,628</u>
Change in net position of governmental activities	<u>\$ 165,153</u>

See notes to the financial statements

**TOWN OF HYPOLUXO, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

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

The Town was incorporated on July 4, 1955, as a municipal corporation by the State of Florida and exists as a Council-Strong Mayor form of municipal government. The Mayor serves as a chairperson of public meetings and executes certain documents authorized by charter, ordinance, or resolution. Each year, the Council elects a Vice Mayor who serves in the capacity of the Mayor when the Mayor is unable to perform his or her duties.

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

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

**Government-Wide and Fund Financial Statements**

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment (operating-type special assessments for maintenance and debt service are treated as charges for services) and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes and assessments 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, 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 levied each November 1 on property as of the previous January 1. The Palm Beach 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, 2018 was \$3.25 per \$1,000 of assessed taxable property value. The fiscal year for which annual assessments are levied begins on October 1 with a maximum discount available for payments through November 30 and become delinquent on 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 end of the budget period are recognized as revenue.

Assessments, property taxes, sales taxes, franchise taxes, licenses 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. All other revenue items are considered to be measurable and available only when cash is received by the government. In the government-wide financial statements property taxes are recorded when assessed and levied.

The Town reports the following major governmental funds:

#### 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.

#### Capital Projects Fund

The capital projects fund is used to account for the proceeds of specific revenue sources that are legally restricted for expenditures of major capital projects.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

#### Restricted Assets

Restricted assets represent resources which have been set aside for capital projects and the State law regarding the infrastructure tax.

#### Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand and demand deposits (interest and non-interest bearing).

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 Interlocal 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.



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

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

#### Deposits and Investments

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. Investments are measured at amortized cost or reported at fair value as required by generally accepted accounting principles.

#### 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.

#### Capital Assets

Capital assets which include property, plant and equipment, are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Equipment and furnishings	8
Park improvements	20

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.

#### Compensated Absences

Permanent full-time employees accrue paid time off at various rates depending on the number of years of service ranging from 3.75 to 5.25 hours per week with a maximum carryover each year. Permanent part-time employees accrue the same amounts based on the number of hours worked per day as a ratio to an 8 hour day. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements. 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.

Upon separation from employment, the employees are paid for all accrued paid time off remaining up to the maximum carryover at the time of separation at the employee's current rate of pay.

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

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

#### Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. Unearned revenue in the general fund consists of business tax receipt fees collected in the current fiscal year for the subsequent fiscal year.

#### Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

#### Fund Equity/Net Position

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

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

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

Assigned fund balance – Includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The Town Council 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 uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal agreements that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Town would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position in the government-wide financial statements are categorized as net investment in capital assets, restricted or unrestricted. Net investment in capital assets represents net position related to infrastructure and property, plant and equipment. Restricted net position represents the assets restricted by the Town's Bond covenants or other contractual restrictions. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

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

### Other Disclosures

#### Use of Estimates

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

## NOTE 3 – BUDGETARY INFORMATION

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

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

- a) Each year the Town submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) Prior to October 1, the budget is legally adopted by the Town Council.
- d) All budget changes must be approved by the Town Council.
- 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

### Deposits

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

### Investments

The Town's investments were held as follows at September 30, 2018:

	Fair Value	Credit Risk	Weighted Average Maturity
Certificates of Deposit	2,667,648	N/A	December 3, 2018 - December 19, 2022
Total Investments	<u>\$ 2,667,648</u>		

*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.

However, the Bond Indenture limits the type of investments held using unspent proceeds.

## **NOTE 4 – DEPOSITS (Continued)**

### **Investments (Continued)**

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

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

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

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

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

## **NOTE 5 – SPECIAL ASSESSMENTS RECEIVABLE**

In June 2000, the Town adopted a resolution declaring a special assessment for the construction of sanitary sewers totaling an estimated cost of approximately \$1.2 million. To fund this project, the Town received, in 2001, a \$450,000 grant from the Lake Worth Lagoon Partnership Program, obtained a loan from the Florida Department of Environmental Protection (See Note 8), and received an advance from the General Fund.

In June 2002, the Town declared the final assessment roll and ratified and confirmed the special assessment. The total special assessment was determined by the actual cost of the sewer improvements and related expenses, \$746,764 (the amount in excess of the grant expenditures). The adoption of the final assessment roll in June 2002 established a lien on the property owners benefiting from the construction of the sanitary sewers. The Town anticipates the collections of the special assessments will be used to pay-down the Florida Department of Environmental Protection Loan.

The special assessment is payable annually to the Town in equal installments, commencing June 1, 2003, for a period not to exceed 20 years at an annual interest rate equal to 4% of the unpaid balance. There is no penalty for prepayments and the entire assessment may be paid within one year after completion of the improvements with no interest accruing to the property owner. There are 70 properties which have been assessed \$10,668 and will pay \$755 a year, commencing on June 1, 2003.

In 2009 the Town adopted a resolution declaring a second special assessment for the construction of sanitary sewer and drainage and water improvements totaling an estimated cost of \$907,929. To fund this project, the Town was reimbursed in the amount of \$174,000 by the Town of Manalapan, grant reimbursements of \$366,297, and loans in the amount of \$90,448 during 2008 and \$267,000 during 2009 from the Florida Department of Environmental Protection. In April 2009, the Town declared the final assessment roll and ratified and confirmed the special assessment. The total special assessment was determined by the actual cost of the sewer improvements and related expenses covered under the loans in the amount of \$355,086. The adoption of the final assessment roll in April 2009 established a lien on the property owners benefiting from the construction of the sanitary sewers.

The special assessment is payable annually to the Town in equal installments, for a period not to exceed 20 years at an annual interest rate equal to 2.35% of the unpaid balance. There is no penalty for prepayments and the entire assessment may be paid through February 1, 2010 with no interest accruing to the property owner. There are 30 properties which have been assessed \$12,244.34 and will pay \$797 a year, commencing February 1, 2010.

## NOTE 5 – SPECIAL ASSESSMENTS RECEIVABLE (Continued)

During the prior fiscal year, the Town utilized funds in the general fund to pay off the loans. The assessments to homeowners will be used to replenish the general fund. During fiscal year ended September 30, 2018, the Town collected \$51,214 for all special assessments from property owners.

## NOTE 6 – INTERFUND TRANSACTIONS

Interfund balances as of September 30, 2018 were as follows:

	Receivable	Payable
General fund	\$ 20,000	\$ 131,426
Capital projects fund	131,426	20,000
	<u>\$ 151,426</u>	<u>\$ 151,426</u>

The balance due from the general fund to the capital projects funds represents amounts collected for infrastructure surtax funds that have not yet been moved to the capital projects fund at year end. The balance due to the general fund relates to loans made to the capital projects fund to establish working capital. Due to a lack of spendable resources in the capital projects fund, it is unclear at this time when the amount will be repaid.

## NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 218,326	\$ -	\$ -	\$ 218,326
Total capital assets, not being depreciated	<u>218,326</u>	<u>-</u>	<u>-</u>	<u>218,326</u>
Capital assets, being depreciated				
Park improvements	1,531,163	-	-	1,531,163
Buildings and improvements	715,873	-	-	715,873
Equipment and furnishings	164,578	-	-	164,578
Total capital assets, being depreciated	<u>2,411,614</u>	<u>-</u>	<u>-</u>	<u>2,411,614</u>
Less accumulated depreciation for:				
Park improvements	974,460	76,558	-	1,051,018
Buildings and improvements	384,783	17,897	-	402,680
Equipment and furnishings	147,375	5,632	-	153,007
Total accumulated depreciation	<u>1,506,618</u>	<u>100,087</u>	<u>-</u>	<u>1,606,705</u>
Total capital assets, being depreciated, net	<u>904,996</u>	<u>(100,087)</u>	<u>-</u>	<u>804,909</u>
Governmental activities capital assets, net	<u>\$ 1,123,322</u>	<u>\$ (100,087)</u>	<u>\$ -</u>	<u>\$ 1,023,235</u>

Depreciation expense was charged to function/programs as follows:

Governmental activities:	
General government	\$ 23,529
Physical Environment	76,558
Total depreciation expense	<u>\$ 100,087</u>

## NOTE 8 – LONG-TERM LIABILITIES

The changes in long-term liabilities for the fiscal year ended September 30, 2018, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Compensated absences	\$ 10,329	\$ 10,766	\$ (14,394)	\$ 6,701	\$ -
Governmental activity long-term liabilities	<u>\$ 10,329</u>	<u>\$ 10,766</u>	<u>\$ (14,394)</u>	<u>\$ 6,701</u>	<u>\$ -</u>

## NOTE 9 – OTHER TAXES

Revenues from other taxes for the general fund consist of intergovernmental revenues and are comprised of the following:

Sales tax- 1/2 cent	\$	219,343
Additional gas tax		18,365
	\$	<u>237,708</u>

## NOTE 10 – PENSION AND DEFERRED COMPENSATION PLANS

The Town provides pension benefits for its present Deputy Town Clerk and Administrative Clerk through a defined contribution plan with a private insurance carrier (Variable Annuity Life Insurance Company). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. This Pension Plan was approved by the Town Council on September 14, 1988. Town Council has the authority to amend the plan provisions and contribution percentage. Under the plan, the Town provides an annual contribution of 10% of participants' salary.

Under the Pension Plan, the Deputy Town Clerk and Administrative Clerk are 100% vested and any other participants will vest as follows:

0%	After 1 year of Service
20%	After 2 years of Service
40%	After 3 years of Service
60%	After 4 years of Service
80%	After 5 years of Service
100%	After 6 years of Service

The Town's total payroll in fiscal year ended September 30, 2018 was \$226,650 of which covered payroll was \$104,748. The Town contributed 10% of the covered payroll, which amounted to \$10,475.

The Town also has a deferred compensation plan where eligible employees can contribute up to a maximum of \$18,000 or 1/3 of their salary. The plan is maintained in accordance with Section 457 of the Internal Revenue Code. During 1998 the Town complied with the new law requiring that the deferred compensation plan's assets be held in the trust for the exclusive benefit of the participants and their beneficiaries. Under the deferred compensation plan the eligible employees are not required to contribute to the deferred compensation plan. The Town does not have access to the assets associated with the deferred compensation plan. As such, activity has not been included in the September 30, 2018 basic financial statements.

## NOTE 11 – 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. These risks are covered by commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. There were no settled claims during the past three years

## NOTE 12 – SUBSEQUENT EVENTS

### GRANTS

Subsequent to fiscal year end, the Town was approved for a fiscal year 2019 Beautification Grant for the project along Federal Highway. The grant is in the amount of \$48,430 with the Town of Hypoluxo's match. Total project cost is estimated to be \$100,150 and will take 24 months to complete the work.

Subsequent to fiscal year end, the Town was approved for a fiscal year 2019 Recreational Trail Funding (RTP). The grant is in the amount of \$200,000 with the Town of Hypoluxo's match of \$50,000. Total project cost is estimated to be \$250,000 and will take 24 months to complete the project.

**TOWN OF HYPOLUXO, FLORIDA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES – BUDGET TO ACTUAL  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

	<u>Budgeted</u>	Actual	Final Budget -
	Original	Amounts	Positive (Negative)
<b>REVENUES</b>			
Ad valorem taxes	\$ 1,095,101	\$ 1,057,835	\$ (37,266)
Utility taxes	285,000	252,440	(32,560)
Other taxes	238,674	237,708	(966)
Franchise taxes	53,000	59,679	6,679
Licenses and permits	69,400	163,144	93,744
Fines and forfeitures	325	125	(200)
State revenue sharing	80,000	60,457	(19,543)
Grant revenue	1,000	-	(1,000)
Special assessments	-	51,214	51,214
Interest and other revenues	24,000	19,140	(4,860)
Total revenues	<u>1,846,500</u>	<u>1,901,742</u>	<u>55,242</u>
<b>EXPENDITURES</b>			
Current:			
General government	257,500	187,966	69,534
Public safety	1,081,000	1,147,516	(66,516)
Physical environment	93,000	147,813	(54,813)
Human resources	390,000	257,965	132,035
Capital outlay	25,000	-	25,000
Total expenditures	<u>1,846,500</u>	<u>1,741,260</u>	<u>105,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	160,482	<u>\$ 160,482</u>
Fund balances - beginning		<u>3,138,586</u>	
Fund balances - ending		<u>\$ 3,299,068</u>	

See notes to required supplementary information

**TOWN OF HYPOLUXO, FLORIDA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The Town Charter requires that the Town establish a budgetary system and an approved Annual Budget. The Town's budgeting process is based on estimates of cash receipts and cash expenditures, which are approved by the Town Council and approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

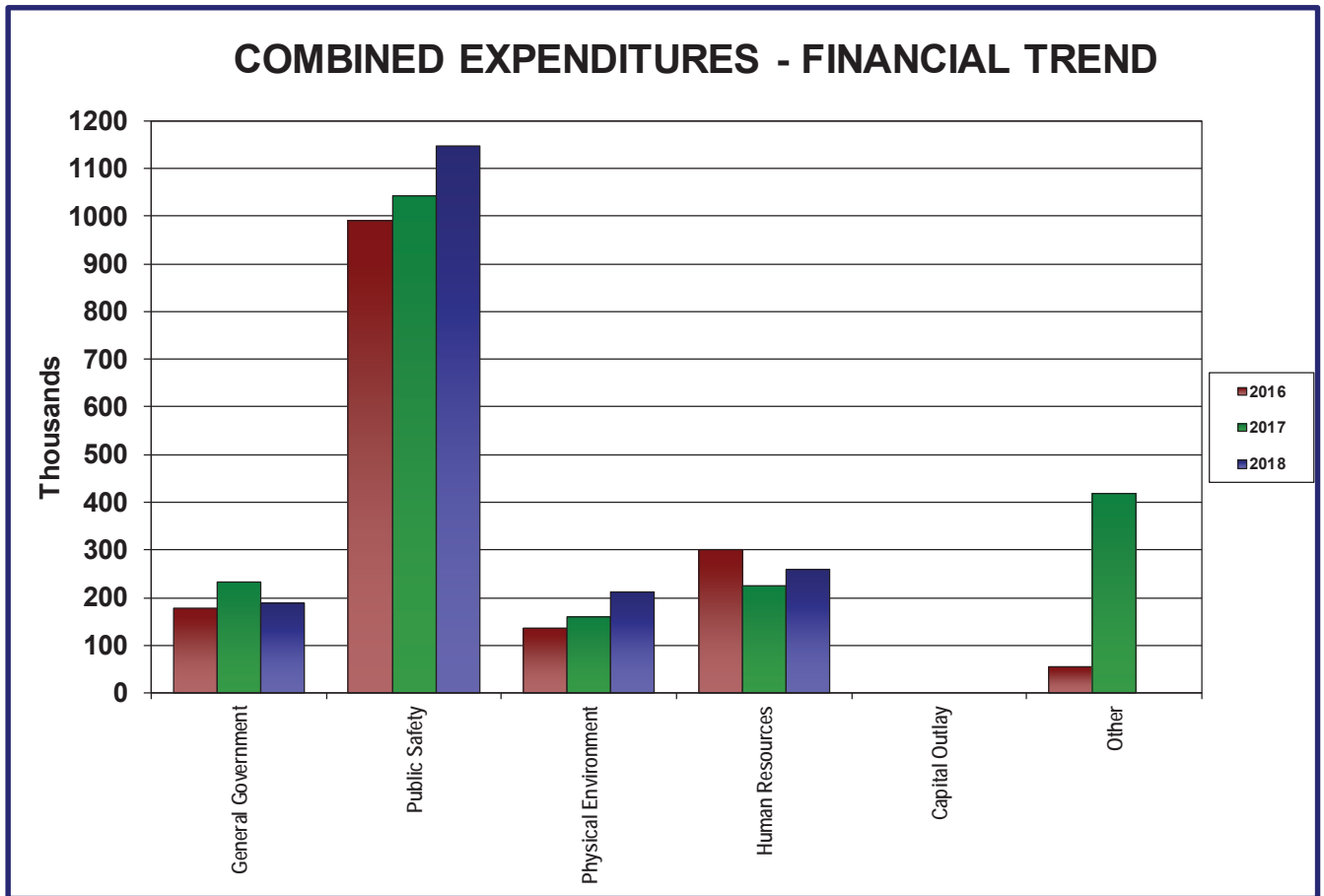
The legal level of budgetary control, the level at which expenditures may not exceed the budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Town Council. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2018.



**TOWN OF HYPOLUXO, FLORIDA  
SELECTED TREND INFORMATION**

**Expenditures Governmental Funds Selected Financial Trend**

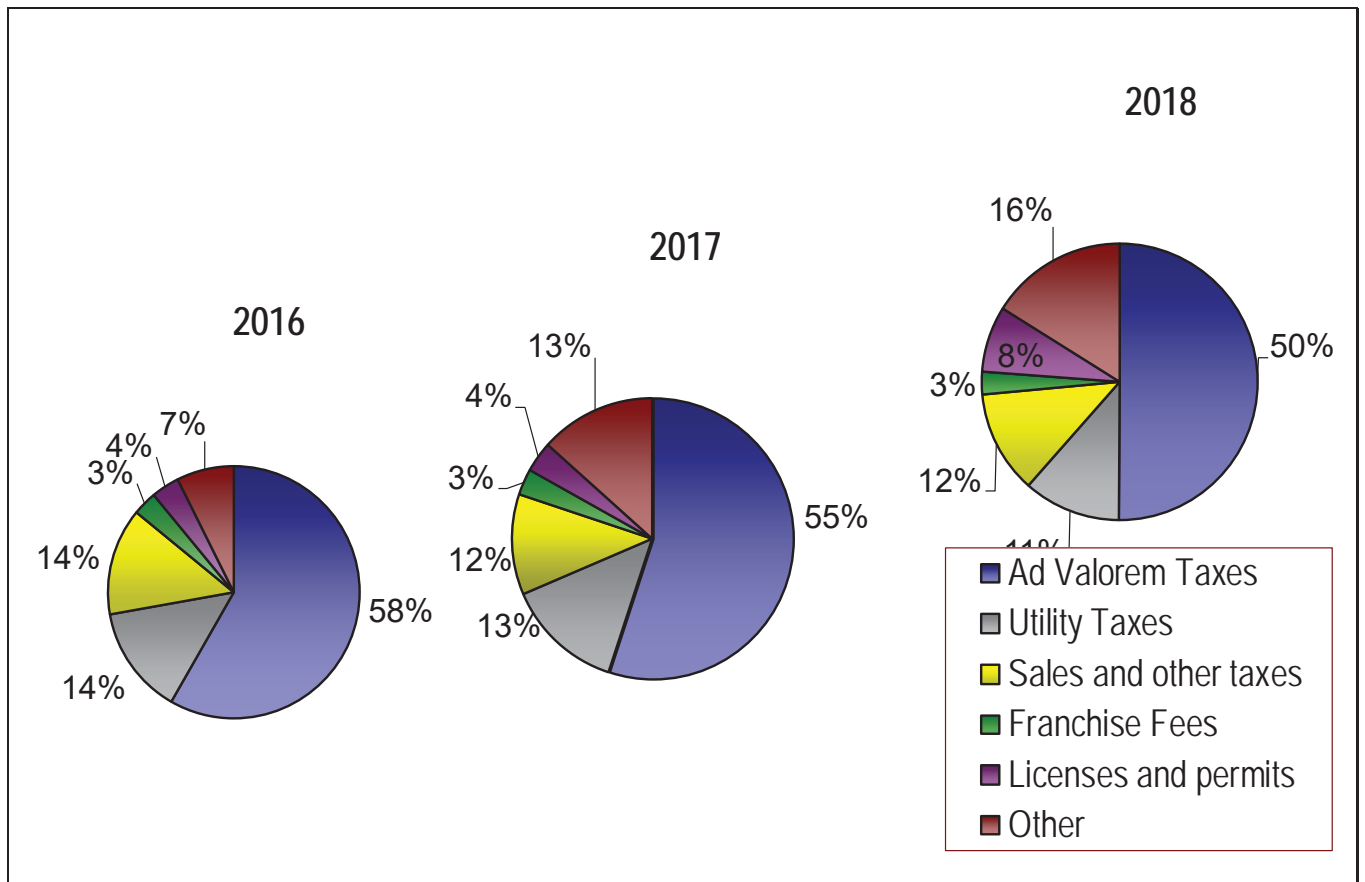
	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Government	\$ 178,000	\$ 232,000	\$ 188,000
Public Safety	992,000	1,042,000	1,148,000
Physical Environment	135,000	160,000	212,000
Human Resources	302,000	224,000	258,000
Other	54,000	419,000	-
<b>Total Expenditures</b>	<b><u>\$ 1,661,000</u></b>	<b><u>\$ 2,077,000</u></b>	<b><u>\$ 1,806,000</u></b>



**TOWN OF HYPOLUXO, FLORIDA  
SELECTED TREND INFORMATION  
(Continued)**

**Revenues Governmental Funds Selected Financial Trend**

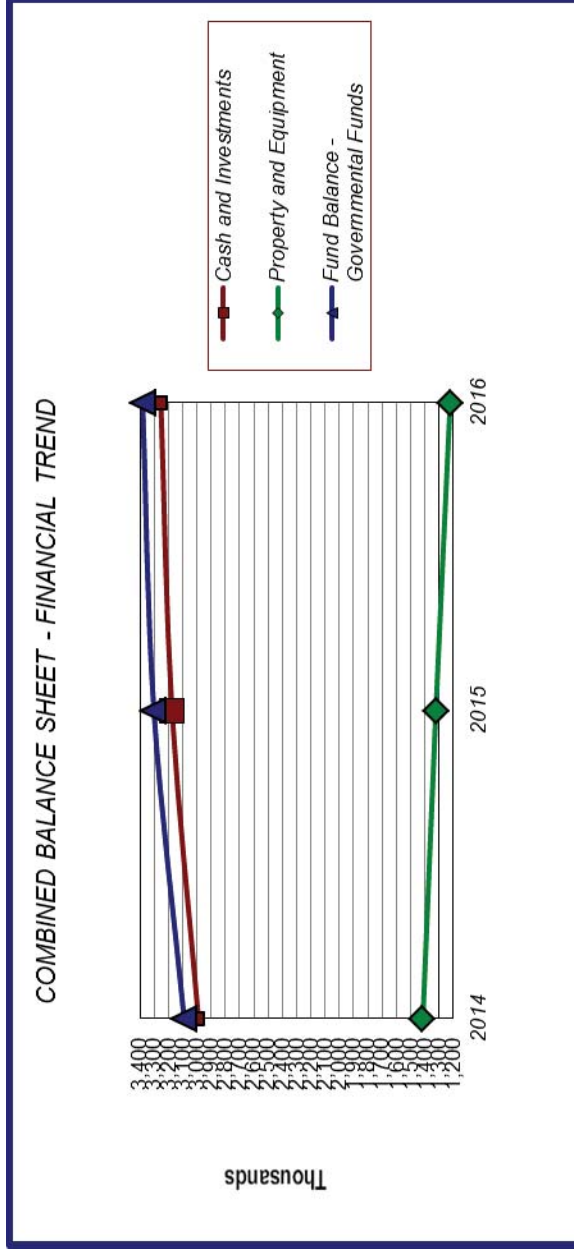
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Ad Valorem Taxes	\$ 1,014,000	\$ 1,080,000	\$ 1,058,000
Utility Taxes	242,000	265,000	241,000
Sales and other taxes	239,000	227,000	254,000
Franchise Fees	54,000	59,000	56,000
Licenses and permits	63,000	69,000	163,000
Other	128,000	262,000	340,000
<b>Total Revenues</b>	<b>\$ 1,740,000</b>	<b>\$ 1,962,000</b>	<b>\$ 2,112,000</b>



**TOWN OF HYPOLUXO, FLORIDA  
SELECTED TREND INFORMATION  
(Continued)**

**Balance Sheet Selected Financial Trend (In Thousands)**

	2016	2017	2018
Cash and Investments	3,254	3,215	3,541
Property and Equipment	1,223	1,123	1,023
Fund Balance - Governmental Funds	3,377	3,262	3,568





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

To the Town Council  
Town of Hypoluxo, 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 and each major fund of the Town of Hypoluxo (the "Town"), as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our opinion thereon dated February 8, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter involving the internal control over financial reporting and compliance that we have reported to management of the Town in a separate letter dated February 8, 2019.

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.

## **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.

A handwritten signature in blue ink that reads "B. Han & Associates".

February 8, 2019



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

To the Town Council  
Town of Hypoluxo, Florida

We have examined the Town of Hypoluxo, Florida's (the "Town") compliance with the requirements of Section 218.415, Florida Statutes, in accordance with Rule 10.556(10) of the Auditor General of the State of Florida during the fiscal year ended September 30, 2018. Management is responsible for the Town's compliance with those requirements. Our responsibility is to express an opinion on the Town's compliance based on our examination.

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

In our opinion, the Town complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2018.

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

*Grau & Associates*

February 8, 2019



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

To the Town Council  
Town of Hypoluxo, Florida

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Town of Hypoluxo, Florida (the "Town") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated February 8, 2019.

**Auditor's Responsibility**

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

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 8, 2019, should be considered in conjunction with this management letter.

**Purpose of this Letter**

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

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

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

We wish to thank the Town 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*

February 8, 2019

## REPORT TO MANAGEMENT

### I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### **2018-01 Internal Controls:**

Observation: During procedures the following issues were noted that were not discovered during the normal review process;

- Cash balance for the general fund checking and money market accounts were overstated as a result of inaccurate bank reconciliations. There was a transfer of funds from the general fund money market account to the checking account per the books; however, the cash was instead deposited to the capital projects fund cash account. In addition, there was a check issued in September 2018 that did not clear the bank until October 2018 but it was not included on the bank reconciliation. Further, there was a state revenue share amount that was recorded twice.
- Checks to different vendors were issued with the same check number. In addition, not all checks issued appear on the check register.
- Infrastructure Surtax transactions were recorded in the general fund.
- Impact fees collected were recorded in the general fund instead of the capital projects fund.

Recommendation: We recommend that staff be provided training and a knowledgeable individual perform a quarterly review of reconciliations and financial transactions recorded.

#### Management Response:

Cash Balance. The three items identified by the auditors related to the cash transactions were the result of clerical bookkeeping or accounting posting errors. After discussion with the auditors the Town staff has taken steps internally to monitor and to ensure prevention of these types of errors in the future. Internal control procedures have been implemented in the review process of the bank reconciliations that will identify any such errors and will allow any such errors to be corrected.

Check numbers. The Town uses pre-numbered checks so no actual check with the same number could be issued twice to different vendors. However, when entering the information including the check number into the accounting system, a clerical error occurred when the same check number, although different on the actual checks, was erroneously duplicated in the accounting system. The clerical input error resulted in the system not listing all checks on the register. More care will be exercised in the future when entering the check information into the accounting system.

Recording transactions to incorrect fund. After discussion with the auditors, internal procedures have been implemented to ensure the recording of Infrastructure Surtax transactions into the Capital Projects Fund rather than into the General Fund.

As it relates to all the above observations, the Town Staff is being provided training and reviews of reconciliations and financial transactions will be performed monthly by the Town Manager/Mayor.

### II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None



## REPORT TO MANAGEMENT (Continued)

### III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address 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, 2017.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported for the fiscal year ended September 30, 2018, except as noted above.

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

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported, for the fiscal year ended September 30, 2018.

4. The name or official title and legal authority of the Town are disclosed in the notes to the financial statement
5. The Town has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
6. We applied financial condition assessment procedures and no deteriorating financial conditions were noted as of September 30, 2018. 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.