

Annual Financial Report

Town of Lake Hamilton, Florida

Year Ended September 30, 2017

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Independent Auditor's Report

Honorable Mayor and Town Council
Town of Lake Hamilton, Florida

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Lake Hamilton, Florida (the "Town"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risks 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the 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* on pages 3-9 and the budgetary comparison information on page 34 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 2, 2018, on my consideration of the Town's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "David R. Ramos, CPA". The signature is written in a cursive, flowing style.

Lakeland, Florida
April 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2017

As management of the Town of Lake Hamilton, Florida (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements beginning on page 10.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$7,266,581 (net position). Of this amount, \$1,386,794 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,369,667.
- As of the close of the current fiscal year, the Town's general fund (governmental fund level) reported ending fund balance of \$1,278,582. Of this total amount, \$929,787 is available for spending at the government's discretion (unassigned fund balance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required 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 like a private-sector business.

The statement of net position presents information on all the Town's assets, liabilities, and deferred inflows and outflows of resources with the residual measure 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 in a manner like the approach used by private-sector business in that revenue is recognized when earned or established criteria are satisfied, and expenses are reported when incurred. Accordingly, revenues are reported even when they may not be collected for several months after the end of the year, and expenses are reported even though they may not have used cash during the current fiscal year.

Both government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, building and code enforcement, law enforcement, streets, sanitation and parks and recreation. The business-type activities of the Town include the water and sewer department.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2017

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements: Funds are a group of self-balancing accounts. Funds are used to account for specific activities of the Town, rather than reporting on the Town as a whole. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains one governmental fund, the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

Proprietary funds: The Town utilizes one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer segments. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 16 to 18 of this report.

All the Town's funds are considered major funds.

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. The notes to the financial statements can be found on pages 19 to 33 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's general fund's budgetary comparisons. Required supplementary information can be found on pages 34 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Government-wide Financial Analysis

The following is a summary of the information presented in the Statement of Net Position on page 10 of this report.

Statement of Net Position (Summary)
as of September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 1,392,718	\$ 1,213,134	\$ 468,791	\$ 227,267	\$ 1,861,509	\$ 1,440,401
Capital assets	1,752,659	1,656,964	6,748,172	5,557,350	8,500,831	7,214,314
Total assets	<u>\$ 3,145,377</u>	<u>\$ 2,870,098</u>	<u>\$ 7,216,963</u>	<u>\$ 5,784,617</u>	<u>\$ 10,362,340</u>	<u>\$ 8,654,715</u>
Long-term liabilities outstanding	\$ 25,687	\$ 38,937	\$ 2,683,809	\$ 2,556,945	\$ 2,709,496	\$ 2,595,882
Other liabilities	114,136	55,698	272,127	106,221	386,263	161,919
Total liabilities	<u>\$ 139,823</u>	<u>\$ 94,635</u>	<u>\$ 2,955,936</u>	<u>\$ 2,663,166</u>	<u>\$ 3,095,759</u>	<u>\$ 2,757,801</u>
Net position:						
Net investment in capital assets	\$ 1,734,859	\$ 1,632,273	\$ 4,065,784	\$ 3,003,380	\$ 5,800,643	\$ 4,635,653
Restricted	14,651	13,570	64,493	55,457	79,144	69,027
Unrestricted	1,256,044	1,129,620	130,750	62,614	1,386,794	1,192,234
Total net position	<u>\$ 3,005,554</u>	<u>\$ 2,775,463</u>	<u>\$ 4,261,027</u>	<u>\$ 3,121,451</u>	<u>\$ 7,266,581</u>	<u>\$ 5,896,914</u>

Eighty percent (80%) of the Town's net position reflects its net investment in capital assets (e.g., land, buildings, sewer and water system, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

One percent (1%) of the Town's net position represents resources that are subject to external restrictions on how they may be used and are reported as restricted net position. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

The following is a summary of the information presented in the Statement of Activities on page 11 of this report.

Statement of Activities (Summary)
For the year ended September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
<i>Program Revenues:</i>						
Charges for services	\$ 341,061	\$ 224,221	\$ 561,657	\$ 446,349	\$ 902,718	\$ 670,570
Operating grants and contributions	14,946	20,036	-	-	14,946	20,036
Capital grants and contributions	128,848	5,843	1,071,950	6,237	1,200,798	12,080
<i>General revenues:</i>						
Taxes	960,213	945,829	-	-	960,213	945,829
Intergovernmental	110,302	116,671	-	-	110,302	116,671
Other	33,630	48,978	791	569	34,421	49,547
Total revenues	1,589,000	1,361,578	1,634,398	453,155	3,223,398	1,814,733
Expenses:						
General government	481,793	385,273	-	-	481,793	385,273
Law enforcement	500,495	488,273	-	-	500,495	488,273
Streets	113,103	98,052	-	-	113,103	98,052
Sanitation	172,699	170,104	-	-	172,699	170,104
Stormwater	12,922	7,923	-	-	12,922	7,923
Parks and recreation	77,897	85,255	-	-	77,897	85,255
Public utilities	-	-	494,822	603,658	494,822	603,658
Total expenses	1,358,909	1,234,880	494,822	603,658	1,853,731	1,838,538
Change in Net Position	230,091	126,698	1,139,576	(150,503)	1,369,667	(23,805)
Net position - October 1	2,775,463	2,683,462	3,121,451	3,237,257	5,896,914	5,920,719
Transfers	-	(34,697)	-	34,697	-	-
Net position - September 30	\$ 3,005,554	\$ 2,775,463	\$ 4,261,027	\$ 3,121,451	\$ 7,266,581	\$ 5,896,914

Governmental activities: Governmental activities' change in net position for 2017 was an increase of \$230,091, before transfers, as compared to an increase of \$126,698 for the prior year. The main reasons for the increase in the change in net position are as follows:

- Total revenue increased by \$227,422.
- Total expenses increased by \$124,029.

Program revenues of the governmental activities increased from \$250,100 in 2016 to \$484,855 in 2017, a 94% increase. Two of the largest causes of the increase in program revenues is due to the full implementation of the stormwater fee (a \$36,506 increase) and increased State grants for Town park improvements (a \$99,450 increase) Total governmental activities expenses increased 10% from \$1,234,880 in 2016 to \$1,358,909 in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2017

Business-type activities: Business-type activities increased the Town's net position by \$1,139,576 in 2017, before transfers, compared to a decrease of \$150,503 in 2016.

The main reason for increase in the change in net position when compared to the prior year is mainly due to an increase of \$928,684 in grant revenues and \$97,991 of project costs transferred from the governmental activities, both of which were related to the wastewater collection and transmission system project that was in process at September 30, 2017. Charges for service increased 25% or \$115,308 due to increased water rates and expenses decreased 18% or \$108,836.

Financial Analysis of the Government's Funds

Governmental funds: The focus of the Town's governmental funds statements 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. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental fund (the general fund) reported ending fund balances of \$1,278,582, an increase of \$121,146 in comparison with the previously reported balance in the prior year. Of this total, \$929,787 for the general fund constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, assigned to the economic uncertainties emergency reserve or restricted by enabling legislation or contract and can only be spent on the purposes for which it is intended.

Activity during the current fiscal year included the following key components:

- Total governmental funds revenues increased by \$227,422 due to increased tax revenue of \$14,690, increased charges for service of \$36,591, increased intergovernmental revenue of \$106,279, increased licenses and permit revenue of \$66,932 and increased fine and forfeitures revenue of \$13,317 coupled with decreased other revenue of \$10,387.
- Total governmental funds expenditures increased by 19% or \$236,872 mainly due to increased capital outlay.

Proprietary funds: The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The major changes between 2017 and 2016 are discussed above under the "business-type activities" heading.

General Fund Budgetary Highlights

Actual resources were more than budgeted resources by \$119,486 and actual charges to appropriations were \$94,014 less than budgeted resulting in an overall favorable budget variance of \$213,500.

The original budget was amended for the fiscal year ended September 30, 2017.

Actual expenditures were higher than the original budgeted amounts due mainly to higher than expected capital outlay expenditures of approximately \$168,000 due to parks and recreation improvements that were originally budgeted in the prior year but were delayed until the current year. The original budget was also amended to cover unforeseen expenditures totaling approximately \$37,000 related to costs necessary to respond to Hurricane Irma in September 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Capital Assets and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental and business type activities as of September 30, 2017, amounts to \$8,500,831 (net of accumulated depreciation) which is an increase of \$1,286,517. This increase is the result of current year additions in excess of depreciation expense. The main component of the current year increase is the wastewater collection and transmission project in the business-type activities which increased by \$1,185,560 during the year ended September 30, 2017. This project was still in progress at year-end.

Information on the Town's capital assets is summarized in the following table.

Capital Assets Activity
(net of depreciation)
as of September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 312,569	\$ 312,569	\$ -	\$ -	\$ 312,569	\$ 312,569
Buildings and improvements	90,505	97,702	5,310,615	5,460,473	5,401,120	5,558,175
Equipment	192,610	139,084	154,006	96,877	346,616	235,961
Construction in progress	170,885	97,991	1,283,551	-	1,454,436	97,991
Infrastructure	986,090	1,009,618	-	-	986,090	1,009,618
Total	\$ 1,752,659	\$ 1,656,964	\$ 6,748,172	\$ 5,557,350	\$ 8,500,831	\$ 7,214,314

Additional information on the Town's capital assets can be found in note 5 on page 28 of this report.

Long-Term Debt: As shown in the table below, the Town had total long-term debt outstanding of \$2,700,188 which represents an increase of approximately 5% over the prior year.

Revenue Notes and Notes Payable
as of September 30,

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue notes	\$ -	\$ -	\$ 2,283,974	\$ 2,324,322	\$ 2,283,974	\$ 2,324,322
Notes payable	17,800	24,691	398,414	229,648	416,214	254,339
Total	\$ 17,800	\$ 24,691	\$ 2,682,388	\$ 2,553,970	\$ 2,700,188	\$ 2,578,661

Additional information on the Town's long-term debt can be found in note 6 on page 30 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2017

Economic Factors and Next Year's Budgets and Rates

It is anticipated that the following significant items will affect the 2018 fiscal year:

- Long-term debt payments for water system long term debt.
- Completion of the wastewater collection and transmission project.
- Capital project expenditures:
 - Approximately \$577,000 for Town Facility renovations.
 - Approximately \$30,000 for public works vehicle purchase.
 - Approximately \$254,000 for law enforcement vehicles purchases.
 - Approximately \$226,00 for stormwater improvements.

These significant factors were considered in preparing the Town's budget for the 2018 fiscal year, and are expected to influence the Town's fiscal year 2018 financial results.

Requests for information

This financial report is designed to provide a general overview of the Town of Lake Hamilton, Florida, finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Lake Hamilton, P.O. Box 126, Lake Hamilton, Florida 33851.

TOWN OF LAKE HAMILTON, FLORIDA

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Pooled cash and cash equivalents	\$ 1,176,723	\$ -	\$ 1,176,723
Receivables, current:			
Customer accounts, net	-	118,371	118,371
Franchise and public service taxes	20,922	-	20,922
Intergovernmental	139,523	221,694	361,217
Restricted assets:			
Pooled cash and cash equivalents	14,651	169,625	184,276
Internal balances	40,899	(40,899)	-
Capital Assets:			
Non-depreciable	483,454	1,283,551	1,767,005
Depreciable, net	1,269,205	5,464,621	6,733,826
TOTAL ASSETS	3,145,377	7,216,963	10,362,340
LIABILITIES			
Accounts payable	21,511	11,025	32,536
Construction costs payable	-	155,079	155,079
Due to other governments	83,542	-	83,542
Accrued payroll	9,083	842	9,925
Customer deposits	-	105,181	105,181
Long-term obligations:			
Due within one year	6,891	54,519	61,410
Due in more than one year	18,796	2,629,290	2,648,086
TOTAL LIABILITIES	139,823	2,955,936	3,095,759
NET POSITION			
Net investment in capital assets	1,734,859	4,065,784	5,800,643
Restricted for:			
Debt service	-	64,443	64,443
Water system improvements	-	50	50
Law enforcement	14,651	-	14,651
Unrestricted	1,256,044	130,750	1,386,794
TOTAL NET POSITION	\$ 3,005,554	\$ 4,261,027	\$ 7,266,581

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
STATEMENT OF ACTIVITIES
for the year ended September 30, 2017

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grant and Contributions	Capital Grant and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 481,793	\$ 103,004	\$ 5,267	\$ -	\$ (373,522)	\$ -	\$ (373,522)
Law enforcement	500,495	29,654	-	9,362	(461,479)	-	(461,479)
Streets	113,103	-	9,679	-	(103,424)	-	(103,424)
Sanitation	172,699	171,897	-	-	(802)	-	(802)
Stormwater	12,922	36,506	-	-	23,584	-	23,584
Parks and recreation	77,897	-	-	119,486	41,589	-	41,589
Total governmental activities	1,358,909	341,061	14,946	128,848	(874,054)	-	(874,054)
Business-type activities							
Water utility	494,822	561,657	-	45,275	-	112,110	112,110
Wastewater utility	-	-	-	1,026,675	-	1,026,675	1,026,675
Total business-type activities	494,822	561,657	-	1,071,950	-	1,138,785	1,138,785
TOTAL PRIMARY GOVERNMENT	\$ 1,853,731	\$ 902,718	\$ 14,946	\$ 1,200,798	(874,054)	1,138,785	264,731
GENERAL REVENUES							
Taxes:							
Property taxes, levied for general purposes					556,193	-	556,193
Franchise taxes					124,443	-	124,443
Public service taxes					160,859	-	160,859
Fuel taxes for transportation purposes					118,718	-	118,718
State shared revenue					110,302	-	110,302
Investment earnings					5,804	791	6,595
Gain on sale of capital assets					507	-	507
Other revenues					27,319	-	27,319
Total general revenues					1,104,145	791	1,104,936
Change in net position					230,091	1,139,576	1,369,667
NET POSITION, beginning of year					2,775,463	3,121,451	5,896,914
NET POSITION, end of year					\$ 3,005,554	\$ 4,261,027	\$ 7,266,581

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
BALANCE SHEET – GOVERNMENTAL FUND
September 30, 2017

	General Fund
ASSETS	
Pooled cash and cash equivalents	\$ 1,176,723
Receivables, current:	
Franchise and public service taxes	20,922
Intergovernmental	139,523
Due from enterprise fund	40,899
Restricted assets:	
Pooled cash and cash equivalents	14,651
TOTAL ASSETS	\$ 1,392,718
LIABILITIES	
Accounts payable	21,511
Accrued payroll	9,083
Due to other governments	83,542
TOTAL LIABILITIES	114,136
FUND BALANCE	
Restricted:	
Law enforcement expenditures	\$ 14,651
Assigned:	
Emergency reserve	334,144
Unassigned	929,787
TOTAL FUND BALANCE	1,278,582
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,392,718

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE
STATEMENT OF NET POSITION**

September 30, 2017

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

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,278,582
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,752,659
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(25,687)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,005,554</u></u>

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
for the year ended September 30, 2017

	General Fund
REVENUES:	
Taxes	\$ 962,611
Licenses and permits	87,618
Intergovernmental revenue	248,829
Charges for services	223,789
Fines and forfeitures	29,654
Other	36,499
Total revenues	<u>1,589,000</u>
EXPENDITURES:	
Current:	
General government	379,342
Public safety	487,125
Physical environment	238,287
Transportation	84,779
Culture/recreation	65,328
Capital outlay	206,102
Debt service	6,891
Total expenditures	<u>1,467,854</u>
NET CHANGE IN FUND BALANCE	121,146
FUND BALANCE, beginning of year	<u>1,157,436</u>
FUND BALANCE, end of year	<u><u>\$ 1,278,582</u></u>

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
for the year ended September 30, 2017

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 121,146
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount of capital assets recorded in the current period	257,782
This is the amount of capital assets transferred to the business-type activities	(97,991)
This is the amount of depreciation recorded in the current period	(64,096)

Long-term obligations including bonds and notes payable and compensated absences are reported as liabilities in the government-wide statement of net position but are not reported as liabilities in the governmental funds because they do not require the use of current financial resources:

This is the change in accrued compensated absences during the year	6,359
Repayment of loan principal reported as an expenditure in governmental funds	6,891

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 230,091
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See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
STATEMENT OF NET POSITION – PROPRIETARY FUND
September 30, 2017

	Enterprise Fund
ASSETS	
Current assets:	
Pooled cash and cash equivalents	\$ -
Customer accounts receivable, net	118,371
Due from other governments	221,694
Total current assets	<u>340,065</u>
Noncurrent assets:	
Restricted assets:	
Pooled cash and cash equivalents	169,625
Capital assets:	
Non-depreciable	1,283,551
Depreciable, net	5,464,621
Total noncurrent assets	<u>6,917,797</u>
TOTAL ASSETS	<u><u>7,257,862</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,025
Construction costs payable	155,079
Accrued payroll	842
Due from general fund	40,899
Bonds and notes payable, current	54,519
Total current liabilities	<u>262,364</u>
Noncurrent liabilities:	
Compensated absences	1,421
Liabilities payable from restricted assets	
Customer deposits	105,181
Bonds and notes payable, noncurrent portion	2,627,869
Total noncurrent liabilities	<u>2,734,471</u>
TOTAL LIABILITIES	<u><u>2,996,835</u></u>
NET POSITION	
Net investment in capital assets	4,065,784
Restricted for:	
Debt service	64,443
Water system improvements	50
Unrestricted	130,750
TOTAL NET POSITION	<u><u>\$ 4,261,027</u></u>

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION – PROPRIETARY FUND
for the year ended September 30, 2017

	Enterprise Fund
OPERATING REVENUES:	
Charges for services	\$ 561,657
Total operating revenues	<u>561,657</u>
OPERATING EXPENSES:	
Personal services	107,316
Operating expenses	154,104
Depreciation	<u>163,549</u>
Total operating expenses	<u>424,969</u>
OPERATING INCOME	<u>136,688</u>
NONOPERATING REVENUE (EXPENSE)	
Interest expense	(69,853)
Interest revenue	<u>791</u>
Total nonoperating revenues (expenses)	<u>(69,062)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>67,626</u>
Capital contributions	143,266
Grants	<u>928,684</u>
CHANGE IN NET POSITION	1,139,576
TOTAL NET POSITION, beginning of year	<u>3,121,451</u>
TOTAL NET POSITION, end of year	<u><u>\$ 4,261,027</u></u>

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
for the year ended September 30, 2017

	Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 550,954
Payments to suppliers	(153,834)
Payments for salaries and benefits	(108,559)
Net cash flows provided by operating activities	<u>288,561</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from other funds, net of interfund receivables/payables	<u>18,352</u>
Net cash flows provided by noncapital financing activities	<u>18,352</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets, net of related payables	(1,101,301)
Principal paid on long-term debt	(48,330)
Interest paid on borrowings	(69,853)
Impact fees received	45,275
Capital grants	706,990
Loan proceeds	<u>176,748</u>
Net cash (used for) capital and related financing activities	<u>(290,471)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on invested funds	<u>791</u>
Net cash flows from investing activities	<u>791</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>17,233</u>
POOLED CASH AND CASH EQUIVALENTS, beginning of year	<u>152,392</u>
POOLED CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 169,625</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 136,688
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	163,549
(Increase) decrease in accounts receivable	(20,949)
Increase (decrease) in customer deposits	10,246
Increase (decrease) in accounts payable	270
Increase (decrease) in accrued wages and comp absences	(1,243)
Net cash flows from operating activities	<u><u>\$ 288,561</u></u>
As shown in the Accompanying Financial Statements	
Pooled cash and cash equivalents	\$ -
Restricted pooled cash and cash equivalents	<u>169,625</u>
Total pooled cash and cash equivalents	<u><u>\$ 169,625</u></u>
Schedule of non-cash capital and related financing activities:	
Contributions of capital assets from the governmental activities	\$ 97,991

See Accompanying Notes to Financial Statements

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its statements (GASBS) and interpretations (GASBI). The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. REPORTING ENTITY

The Town of Lake Hamilton, Florida (the "Town") is a Municipal Corporation incorporated in 1925 by Chapter 10781, Laws of Florida. The Town operates under a council-town administrator form of government. These financial statements include all of the funds, organizations, agencies, and departments of the Town (the "primary government") and any "legally separate entities" ("component units") required by generally accepted accounting principles to be included in the reporting entity.

The accompanying financial statements present the Town's primary government and component units over which the Town exercises significant influence. Criteria for determining if other entities are potential component units of the Town which should be reported with the Town's basic financial statements are identified and described in the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. The application of these criteria provides for identification of any entities for which the Town is financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. A blended component unit, although legally separate, is in substance part of the Town's operations and presented in the financial statements as "blended" components. Blending refers to the fact that the component unit's funds are combined with those of the primary government for financial reporting purposes.

Based on these criteria, the financial reporting entity does not include or exclude any component units.

The financial reporting entity does not include the assets of the employee defined contribution pension plan, which were determined not to be assets of the Town.

B. BASIS OF PRESENTATION

The basic financial statements consist of the government-wide financial statements and fund financial statements.

Government-wide Financial Statements - The required government-wide financial statements are the Statement of Net Position and the Statement of Activities, which report information on all of the nonfiduciary activities of the Town. The effects of interfund activity have been removed from these statements. The Town has no fiduciary funds, however, if it did they would be excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to fund activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment, including depreciation. The Town does not allocate the interest expense of governmental fund debt or indirect costs such as finance, personnel, legal, etc. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements - The financial transactions of the Town are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Cod. Sec 2200 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Non-major funds by category are summarized into a single column. Due to the Town's fund structure, there were no non-major funds. The various funds are reported by type within the financial statements.

The following fund types and funds are used and reported by the Town:

Governmental Funds - The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund of the Town:

- **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.

Proprietary Funds - The focus of proprietary fund measurement is upon determination of operating income, changes in net position, overall financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The Town has one *Enterprise Fund* which accounts for the activities associated with providing potable water to area residents. This fund is also accumulating the costs necessary to construct a wastewater collection and transmission system. This construction project is still in progress at year-end.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Imposed nonexchange resources (property taxes, fines) are reported as deferred inflows if received before the tax is levied or before the date when use is first permitted. Government mandated nonexchange transactions (grants) and voluntary nonexchange transactions (donations) resources are reported as liabilities until the eligibility requirements are met and as deferred inflows if received before time requirements are met.

Proprietary fund operating revenues generally result from producing and providing potable water services to area residents. Operating expenses for these operations include all costs related to providing the service or product. These costs include billing and collection, personnel and purchased services, repairs and maintenance, depreciation, materials and supplies, and other expenses directly related to costs of services.

All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise and public service taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current period. Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criteria. All other revenue items are measurable and available only when cash is received by the government.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

D. ASSETS, LIABILITIES AND NET POSITION OR EQUITY

CASH AND CASH EQUIVALENTS – Cash is reflected as though it was pooled to conform to actual operations. The amounts reported as cash represent each fund's recorded equity in the pool of cash. For purposes of the Statement of Cash Flows, all pooled cash is considered cash and cash equivalents. The caption "pooled cash and cash equivalents" includes all bank demand deposits, certificates of deposit, money-market and savings accounts and all short-term highly liquid investment securities with a maturity of three months or less when purchased. At September 30, 2017, all of the Town's cash and investments met this definition.

RECEIVABLES - The Town accrues the unbilled service of its enterprise fund which represents the estimated value of service from the last billing date to year end and totaled \$9,403 at September 30, 2017. A reserve for doubtful accounts is maintained in the enterprise fund equal to the value of the utility customer receivables that are not expected to be collected. As of September 30, 2017, all customer receivables are considered collectible and no reserve for doubtful accounts is recorded.

INTERFUND BALANCES - To the extent any current interfund balances exist, management anticipates that they will be settled in cash as opposed to a permanent transfer.

INVENTORY - Enterprise fund inventories are valued at the lower of cost or market determined on a first-in, first-out basis.

CAPITAL ASSETS - In the government-wide financial statements capital assets include land, buildings, improvements, utility plant, infrastructure, and furniture and equipment. Governmental fund infrastructure assets (e.g., roads, bridges, sidewalks, streets, drainage systems and lighting system) acquired prior to October 1, 2003, have not been reported. Capital assets are defined by Town resolution as tangible property or improvements with an individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost, if purchased and at acquisition value at date of gift, if donated. Major additions are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings	10-40
Improvements other than buildings	40-45
Machinery and equipment	3-5
Infrastructure	50

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

RESTRICTED ASSETS – Restricted assets include cash and investments that are legally restricted to specific uses by external parties. The Town generally uses restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

INTEREST COSTS - Interest costs are capitalized when incurred on debt the proceeds of which were used to finance the construction of enterprise fund capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No interest cost was capitalized for the year ended September 30, 2017.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES - In addition to assets, the statement of net 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 will *not* be recognized as an outflow of resources (expense/expenditure) until that time.

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

LONG-TERM OBLIGATIONS - In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Debt issuance costs are reported as an expense in the period incurred. Bond premiums and discounts are reported, net of amortization, in the related debt balances shown in the financial statements. For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is the shorter. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements; rather the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

COMPENSATED ABSENCES - Employees accumulate vacation leave ranging from 80 to 120 hours per year. The maximum number of vacation leave hours that may be accrued and carried forward shall not exceed 25% of their annual accrual rate. Any hours accrued in excess of 25% of their annual rate will be forfeited if not used by the end of each fiscal year. Accrued vacation is paid by the Town upon retirement or termination at the employee's current hourly rate of pay. Employees accumulate sick days at the rate of 12 days per year without limitation. The Town pays accrued sick leave to employees with at least 10 consecutive years of full-time service to the Town who separate employment in good standing. The amount of sick leave to be paid to eligible employees is 50 percent of accrued sick leave hours not to exceed 300 hours.

The liability for these compensated absences is recorded as long-term in the government wide statements and in the proprietary fund financial statements because the maturities are not determinable. In the fund financial statements, the governmental funds do not report the compensated absence liability because it is generally not payable from expendable available financial resources.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont...)

INTERFUND TRANSFERS - Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CONNECTION FEES AND IMPACT FEES - Water connection fees represent reimbursement of the costs incurred to perform the connection of the respective utilities and are recorded as operating revenue when received. Impact fees, which are not considered connection fees since they substantially exceed the cost of connection, are recorded as capital contributions when received. Prepaid impact fees received, which reserve capacity in the Town's future water facilities, are deferred and reported as capital contributions when the requirements of the Developer agreements are met by the Town.

EQUITY CLASSIFICATIONS -

Government-wide Statements - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources is classified as net position and displayed in three components:

- a) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - Consists of restricted assets reduced by liabilities related to those assets. The government-wide statement of net position reports \$79,144 of restricted net position, of which \$14,651 is restricted by enabling legislation.
- c) Unrestricted net position - Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Fund Statements - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor the constraints on the specific purposes for which amounts in those funds can be spent. Spendable resources are to be shown as restricted, committed, assigned and unassigned as considered appropriate in the Town's circumstances. The following classifications describe the relative strength of the spending constraints:

Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed — amounts constrained to specific purposes by formal action (ordinance) of the Town using its highest level of decision making authority (the Town Council). To be reported as committed, amounts cannot be used for any other purpose unless the Town Council takes the same highest level action (ordinance) to remove or change the constraint.

Assigned — amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town Manager through the budgetary process. The Town Council has not established a formal policy regarding authorization to assign fund balance amounts for a specific purpose.

Unassigned — all other spendable amounts.

The Town uses restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The Town has established an emergency reserve policy consisting of a base of \$125,000 plus the lesser of 18 percent of annual expenditures or two months of general fund operating expenditures. This Economic Uncertainties Fund is reported as assigned fund balance within the general fund.

USE OF ESTIMATES – The preparation of the basic financial statements in conformity with generally accepted accounting principles, as applicable to government entities, requires management to make use of estimates that affect the reported amounts in the basic financial statements. Actual results could differ from estimates.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 2 - PROPERTY TAX CALENDAR

Under Florida Law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The tax levy of the Town is established by the Town Council prior to October 1 of each year and the Polk County Property Appraiser incorporates the millages into the total tax levy, which includes the municipalities, the County, independent districts and the County School Board tax requirements. State statutes permit cities to levy property taxes at a rate of up to 10 mills. The Town's millage rate in effect for the fiscal year ended September 30, 2017 was 8.4276.

All taxes are due and payable on November 1 (levy date) of each year and unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment as follows: 4% in of November, 3% in December, 2% in January, 1% in February. The taxes paid in March are without discount. Delinquent taxes on real and personal property bear interest of 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property.

NOTE 3 - BUDGETARY LAW AND PRACTICE

The budget is adopted by Resolution on a Town-wide basis for all Town funds on or before October 1 of each year as required by State Statute. Town policy establishes the legal level of budgetary control at the department level. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations subject to notification of the Town Council; however, any revisions that alter the total expenditure of any fund must be approved by Ordinance. Budgets for all funds are adopted on the basis of cash receipts and disbursements which differs from the basis used for financial reporting purposes. These differences are usually not significant for the governmental funds, however they are for the enterprise fund as the budget includes capital outlay and debt principal repayments as expenses and does not include depreciation.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS

DEPOSITS IN FINANCIAL INSTITUTIONS - The Town's deposits are insured by the FDIC up to \$250,000 per financial institution. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the Chief Financial Officer, State of Florida ("CFO") in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the CFO will implement procedures for payment of losses according to the validated claims of the Town pursuant to Section 280.08 Florida Statutes.

INVESTMENTS - The types of investments in which the Town may invest are governed by State Statutes and Town Policy. According to State Statutes, the Town is authorized to invest in the following instruments: Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized through the Florida Interlocal Cooperation Act; S.E.C. registered money market funds with the highest credit quality rating from a nationally recognized rating company; interest-bearing time deposits and savings accounts in qualified public depositories; direct obligations of the U.S. Treasury and federal agencies and instrumentalities or repurchase agreements fully collateralized by such securities; and interest in an entity registered under the Investment Company Act of 1940 whose investments are limited to U.S. Governments.

According to Town policy, the Town is authorized to invest in obligations issued or unconditionally guaranteed by the U.S. Government or its agencies and instrumentalities, including open-ended mutual funds whose underlying securities are comprised of these securities, direct obligations of the U.S. Treasury, repurchase agreements, and certificates of deposit and savings accounts in State qualified public depositories.

The captions on the government-wide statement of net position for "cash and cash equivalents", both restricted and unrestricted, are summarized below. There were no investment securities maintained during the year.

Cash and cash equivalents:	
Cash on hand	\$ 250
Deposits in financial institutions:	
Insured or fully collateralized bank deposits,	
including non-negotiable certificates of deposit	<u>1,360,749</u>
Total cash and cash equivalents	<u>\$ 1,360,999</u>

The Town has no policy regarding custodial credit risk, concentration of credit risk, interest rate risk or foreign currency risk.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017 was as follows:

	Balance October 1, 2016	Transfers	Increases	Decreases	Balance September 30, 2017
<u>Governmental Activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 312,569	\$ -	\$ -	\$ -	\$ 312,569
Construction-in-progress	97,991	(97,991)	170,885	-	170,885
Total capital assets, not being depreciated	\$ 410,560	\$ (97,991)	\$ 170,885	\$ -	\$ 483,454
Capital assets, being depreciated:					
Buildings	331,635	-	-	-	331,635
Machinery and equipment	743,037	-	86,897	-	829,934
Infrastructure	1,176,449	-	-	-	1,176,449
Total capital assets, being depreciated	2,251,121	-	86,897	-	2,338,018
Less accumulated depreciation for:					
Buildings	(233,933)	-	(7,197)	-	(241,130)
Equipment and furniture	(603,953)	-	(33,371)	-	(637,324)
Infrastructure	(166,831)	-	(23,528)	-	(190,359)
Total accumulated depreciation	(1,004,717)	-	(64,096)	-	(1,068,813)
Total capital assets being depreciated, net	1,246,404	-	22,801	-	1,269,205
Governmental activities capital assets, net	\$ 1,656,964	\$ (97,991)	\$ 193,686	\$ -	\$ 1,752,659
<u>Business-type activities:</u>					
Capital assets, not being depreciated:					
Construction-in-progress	\$ -	\$ 97,991	\$ 1,185,560	\$ -	\$ 1,283,551
Total capital assets, not being depreciated	\$ -	\$ 97,991	\$ 1,185,560	\$ -	\$ 1,283,551
Capital assets, being depreciated:					
Buildings	136,460	-	-	-	136,460
Equipment and furniture	280,224	-	70,820	-	351,044
Improvements other than buildings	6,158,630	-	-	-	6,158,630
Total capital assets, being depreciated	6,575,314	-	70,820	-	6,646,134
Less accumulated depreciation for:					
Buildings	(105,953)	-	-	-	(105,953)
Equipment and furniture	(183,347)	-	(13,691)	-	(197,038)
Improvements other than buildings	(728,664)	-	(149,858)	-	(878,522)
Total accumulated depreciation	(1,017,964)	-	(163,549)	-	(1,181,513)
Total capital assets being depreciated, net	5,557,350	-	(92,729)	-	5,464,621
Business-type activities capital assets, net	\$ 5,557,350	\$ 97,991	\$ 1,092,831	\$ -	\$ 6,748,172

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 5 - CAPITAL ASSETS (concluded)

Depreciation expense was charged to the following programs and functions:

<u>Governmental Activities:</u>	
General government	\$ 8,843
Law enforcement	11,228
Streets	28,324
Parks	12,762
Sanitation	2,939
Total depreciation expense - governmental activities	<u>\$ 64,096</u>
 <u>Business-type Activities:</u>	
Water	<u>\$ 163,549</u>
Total depreciation expense - business-type activities	<u>\$ 163,549</u>

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended September 30, 2017:

	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017	Amounts Due within One Year
<u>Governmental Activities:</u>					
<u>Long-term liabilities:</u>					
Notes payable:					
John Deere Financial Loan	\$ 24,691	\$ -	\$ (6,891)	\$ 17,800	\$ 6,891
Compensated absences	14,246	33,589	(39,948)	7,887	-
Total long-term liabilities	<u>\$ 38,937</u>	<u>\$ 33,589</u>	<u>\$ (46,839)</u>	25,687	<u>\$ 6,891</u>
Less amounts due in one year				(6,891)	
Net long-term liabilities in excess of one year				<u>\$ 18,796</u>	
<u>Business-type Activities:</u>					
<u>Long-term liabilities:</u>					
Bonds, notes payable and capital lease obligations:					
Water system revenue bonds, Series 2012	\$ 2,324,322	\$ -	\$ (40,348)	\$ 2,283,974	\$ 41,457
WW531620 installment note to FDEP	-	176,748	-	176,748	4,860
DW531610 installment note to FDEP	229,648	-	(7,982)	221,666	8,202
Total bonds, notes payable and capital lease obligations	<u>2,553,970</u>	<u>176,748</u>	<u>(48,330)</u>	<u>2,682,388</u>	<u>54,519</u>
Compensated absences	<u>2,975</u>	<u>6,412</u>	<u>(7,966)</u>	<u>1,421</u>	<u>-</u>
Total long-term liabilities	<u>2,556,945</u>	<u>183,160</u>	<u>(56,296)</u>	2,683,809	<u>\$ 54,519</u>
Less amounts due in one year				(54,519)	
Net long-term liabilities in excess of one year				<u>\$ 2,629,290</u>	

Notes to Long-Term Obligations Table

Governmental Activities:

- The John Deere Financial note payable is financing for a utility tractor and a grooming mower. The loan requires 60 monthly principal payments of \$574 to fully payoff the loan by maturity in April 2020. Management has assessed the application of *GASB Cod. Section 130 – Interest Costs – Imputation*. Because of management's assessment, the amount of any potential imputed interest is immaterial, and management has elected not to apply the interest imputation provisions of GASB Cod. Section 130.

Business-Type Activities:

- The State of Florida Department of Environmental Protection Revolving Fund Water Loan Agreement DW531610 is secured by the net revenues of the water system. The loan is payable semiannually with principal and interest payments due on December 15 and June 15. The loan bears interest at a weighted average rate of 2.74% with a final maturity of December 15, 2038. The loan agreement requires that funds be deposited into a sinking fund monthly at amounts which will fully fund the next succeeding principal and interest payments when due. The loan proceeds were used to purchase a hydrogen sulfide removal system for the Town water system.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Notes to Long-Term Obligations Table (concluded)

- The State of Florida Department of Environmental Protection Revolving Fund Water Loan Agreement DW531620 is secured by certain Town cash deposits. The total loan available is \$290,302 of which \$176,748 has been drawn down as of September 30, 2017. The loan is payable semiannually with principal and interest payments due on December 15 and June 15 beginning on June 15, 2018. The loan bears interest at a rate of 2.6% with a final maturity of December 15, 2038. The loan agreement requires that funds be deposited into a sinking fund monthly at amounts which will fully fund the next succeeding principal and interest payments when due. The loan proceeds are being used to construct a wastewater collection and transmission system. This project is still in progress as of September 30, 2017.
- The USDA Rural Utilities Service Series 2012 Water Revenue Bonds are secured by the net revenues of the water system. The bonds bear interest at 2.75% with a final maturity of September 1, 2051. The bond proceeds were used to construct a new water plant. The bonds require the maintenance of sinking and reserve funds.

Maturities: Annual requirements to repay all bonds, notes payable and lease obligations of the business-type activities as of September 30, 2017, were as follows:

Fiscal Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	6,891	\$ -	\$ 54,519	\$ 72,203
2019	6,891	-	63,018	71,909
2020	4,018	-	64,739	70,188
2021	-	-	66,506	68,421
2022	-	-	68,322	66,605
2023-2027	-	-	370,636	303,999
2028-2032	-	-	396,122	251,040
2033-2037	-	-	400,623	198,081
2038-2042	-	-	376,782	144,553
2043-2047	-	-	431,519	89,816
2048-2052	-	-	389,602	27,137
Total	<u>\$ 17,800</u>	<u>\$ -</u>	<u>\$ 2,682,388</u>	<u>\$ 1,363,952</u>

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 7 - INTERFUND TRANSACTIONS

Interfund Receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Enterprise Fund	\$ 40,899

Interfund transfers for the year ended September 30, 2017, consisted of:

There were no interfund transfers during the year ended September 30, 2017. The governmental activities transferred costs associated with the wastewater collection and transmission system totaling \$97,991 that were being accumulated in construction in progress within the governmental activities in the prior year. During the current year, management deemed the logical fund to account for this project would be the enterprise fund and as such, the accumulated project costs as of the end of the prior year were transferred to the business-type activities. This transaction is reported in the statement of activities as a component of general government functional expenses of the governmental activities and a capital contribution in the wastewater function of the business-type activities.

Other interfund transactions:

The Town's enterprise fund charged \$3,912 for the water supplied to general fund operations.

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

The Town Council has established by Resolution an Internal Revenue Code Section 457 defined contribution pension plan. The plan trust is administered by the Lincoln Financial Group and the assets of the plans are not considered part of the Town's reporting entity. Participation is voluntary, and the employee determines the amount of their contribution. Employees that participate in the plan may contribute up to the lesser of \$7,500 or 33 1/3% percent of their wages. The Town contributes a matching amount up to three percent of each employee's wages. Most employees of the Town were eligible and did participate in the plan during the year ended September 30, 2017. Pension costs are accrued and funded on a current basis and all required contributions for the year were made. Contributions for the fiscal year ended September 30, 2017 totaled \$9,951 which consisted of \$5,676 contributed by employees and \$4,275 contributed by the Town. The Town's payroll totaled approximately \$629,330, of which pension contributions were provided on approximately \$142,495.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

Pursuant to the provisions of section 112.08011, Florida Statutes, former employees and eligible dependents who retire from the Town may continue to participate in the Town's fully insured health and hospitalization plan. These retirees are completely responsible for payment of their insurance premiums and the Town does not contribute toward this payment. Based upon prior experience, the assumed participation rate is zero percent and current insurance premiums are not affected by the requirements of section 112.08011, Florida Statutes. An actuarial projection with a zero-assumed participation rate, which is consistent with actual results, would result in a Other Post Employment Benefit (OPEB) obligation of zero. Accordingly, there is no OPEB obligation recorded in the financial statements.

TOWN OF LAKE HAMILTON, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

NOTE 10 - RISK MANAGEMENT AND LITIGATION

During the ordinary course of its operations, the Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Town maintains commercial insurance coverage in amounts management feels are adequate to protect and safeguard the assets of the Town. There have been no significant reductions in coverage nor have settlement amounts exceeded the Town's coverage during the year ended September 30, 2017 or the previous two fiscal years. In the opinion of the Town's management and legal counsel, legal claims and litigation are not anticipated to have material impact on the financial position of the Town. The Town's workers compensation coverage is provided through a nonassessable, nonprofit, tax-exempt risk sharing pool. Settled claims resulting from these risks have not exceeded insurance coverage.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Town participates in several programs that are fully or partially funded by grants received from Federal, state, or county agency sources. Expenditures financed by grants are subject to audit by the appropriate grantor government/agency. If expenditures are disallowed due to non-compliance with grant program regulations, the Town may be required to reimburse the grantor government/agency. As of September 30, 2017, the Town believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Town.

NOTE 12 - FUTURE REVENUES THAT ARE PLEDGED

The Town has pledged various future revenue sources for various debt issues. For the water system, the Town has pledged future revenues, net of certain operating expenses. The following table provides a summary of the pledged revenues for the Town's outstanding debt issues. Additional information regarding the Town's pledged revenue can be found in note 6.

	Total Principal and Interest Outstanding	Current Year Principal and Interest Paid	Current Year Revenue	% of Revenues to Principal and Interest Paid
Pledged Revenue				
Water system net revenue	\$ 3,835,868	\$ 118,183	\$ 301,028	254.71%

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF LAKE HAMILTON, FLORIDA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
for the year ended September 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
RESOURCES (inflows):				
Taxes	\$ 944,439	\$ 962,611	\$ 962,611	\$ -
Licenses and permits	45,000	87,618	87,618	-
Intergovernmental revenue	122,875	129,278	248,829	119,551
Charges for services	188,160	223,854	223,789	(65)
Fines and forfeitures	13,000	29,654	29,654	-
Other	16,000	36,499	36,499	-
Total resources	1,329,474	1,469,514	1,589,000	119,486
CHARGES TO APPROPRIATIONS (outflows):				
General government				
Council	184,010	184,010	124,828	59,182
Finance and administration	152,249	153,401	150,766	2,635
Building and planning	107,302	107,302	103,743	3,559
Total general government	443,561	444,713	379,337	65,376
Law enforcement	505,827	540,801	532,453	8,348
Sanitation	171,077	194,090	185,142	8,948
Streets	158,804	158,804	152,985	5,819
Parks	77,712	223,460	217,937	5,523
Total charges to appropriations	1,356,981	1,561,868	1,467,854	94,014
EXCESS (DEFICIENCY) OF RESOURCES OVER CHARGES TO APPROPRIATIONS	\$ (27,507)	\$ (92,354)	\$ 121,146	\$ 213,500

OTHER REPORTS

**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***

Honorable Mayor and Town Council
Town of Lake Hamilton, Florida

I have audited, 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Lake Hamilton, Florida (the "Town") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued my report thereon dated April 2, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Lake Hamilton'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. I consider a deficiency described in the accompanying Schedule of Findings and Noncompliance to be a material weakness.

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. I consider a deficiency described in the accompanying Schedule of Findings and Noncompliance to be a significant deficiency.

My 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's Response to Findings

The Town's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Noncompliance. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *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 "David R. Ramsey, CPA".

Lakeland, Florida
April 2, 2018

TOWN OF LAKE HAMILTON
SCHEDULE OF FINDINGS AND NONCOMPLIANCE
YEAR ENDED SEPTEMBER 30, 2017

MATERIAL WEAKNESSES

(From Prior Year)

Condition 2009-1:

A lack of segregation of duties was observed.

Criteria:

There should be a segregation of duties.

Cause:

Budget constraints prevent the hiring of additional administrative personnel, whose employment would allow for a segregation of duties.

Effect:

The lack of segregation of duties increases the opportunity for fraud or error to occur and not be detected in a timely manner.

Recommendation:

Consider hiring additional staff to provide the additional control.

Current Year Status:

The Town has implemented procedures to address this finding and I consider it resolved.

(From Prior Year)

Condition 2016-2:

Water deposits payable were not reconciled to the general ledger control account.

Criteria:

Water deposits payable should be reconciled to the general ledger account each month to ensure actual payable amounts are recorded in the financial statements.

Cause:

Record keeping was insufficient to provide accurate recording of accounts receivable, making reconciling difficult.

Effect:

Unreconciled water deposits payable could result in erroneous deposits payable disbursements and in improperly recorded revenues, expenses, assets and liabilities.

Recommendation:

I recommend the detail be reconciled to the general ledger control account monthly.

Current Year Status:

This condition still exists.

SIGNIFICANT DEFICIENCY

(From Current Year)

Condition 2017-1:

Insurance coverage on certain water system assets was inadequate.

Criteria:

Insurance coverage on water system assets should be in place to adequately cover instances of loss.

Cause:

A review of insurance coverage needs was not performed in sufficient detail.

Effect:

The Town was at risk of experiencing a loss without adequate insurance coverage.

Recommendation:

I recommend the Town increase insurance coverage on affected assets.

NONCOMPLIANCE

(From Prior Year)

Condition 2013-4:

The Town did not maintain water rates and charges sufficient to satisfy bond requirements.

Criteria:

The Town must adequately increase water rates and charges so they are sufficient to satisfy bond requirements.

Cause:

The Town does not have staff with sufficient technical ability to determine the proper rates to charge for water.

Effect:

The Town was non-compliant with bond requirements.

Recommendation:

I recommend the Town maintain water rates and charges sufficient to satisfy bond requirements.

Current Year Status:

The Town has implemented procedures to address this finding and I consider it resolved.

(From Prior Year)

Condition 2016-1:

The Town's streets department's actual expenditures exceeded the amount budgeted.

Criteria:

The Town must limit expenditures to amounts provided in the adopted and revised budget.

Cause:

The Town did not sufficiently monitor actual expenditures and compare them to budget.

Effect:

The Town violated a budget-related resolution.

Recommendation:

I recommend the Town expend only within its adopted and subsequently revised budget.

Current Year Status:

The Town has implemented procedures to address this finding and I consider it resolved.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and Town Council
Town of Lake Hamilton, Florida

Report on Compliance for Each Major Federal Program

I have audited the compliance of the town of Lake Hamilton, Florida (the "Town") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended September 30, 2017. The Town's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on the Town's compliance based on my audit. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and the Audit Requirement for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying Schedule of Findings and Questioned Costs occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements in performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major Federal program. However, my audit has not provided legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In my opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that made the material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of the internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

I have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Lake Hamilton, Florida (the "Town") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. I have issued my report thereon dated April 2, 2018, which contained unmodified opinions on those financial statements. My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements.

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

David R. Rambo, CPA

Lakeland, Florida
April 2, 2018

TOWN OF LAKE HAMILTON, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended September 30, 2017

Grant or Program Title	Federal CFDA#	Grant/Contract Identification	Total Expenditures
Environmental Protection Agency			
Passed through:			
Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds - Grant	66.458	531620	\$ 928,684
Capitalization Grants for Clean Water			
State Revolving Funds - Grant	66.458	531620	176,748
Total Environmental Protection Agency			1,105,432
 U.S. Department of Justice			
Passed through:			
Florida Department of Law Enforcement			
Edward Byrne Memorial Justice	16.738	2017-JAGC-POLK-11-F9-003	8,000
Assistance Grant Program	16.738	2017-JAGD-POLK-6-F8-013	862
Total U.S. Department of Justice			8,862
Total Federal Financial Awards			\$ 1,114,294

TOWN OF LAKE HAMILTON, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended September 30, 2017

NOTE 1 – GENERAL

The accompanying Schedule of Expenditure of Federal Awards represents the Federal grant activity of Town of Lake Hamilton, Florida (the "Town"), recorded by the Town during the fiscal year ended September 30, 2017.

NOTE 2 – BASIS OF ACCOUNTING AND PRESENTATION

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards Subpart F*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements of the Town.

The expenditures in the accompanying schedule are presented using the modified accrual basis of accounting, except for the proprietary funds, which are presented on the accrual basis. The modified accrual basis recognizes expenditures in the period the associated liability is incurred, when matured and due, while under the accrual basis expenses are recognized in the period when incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 – CONTINGENCIES

Grant monies received by the Town are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Town does not believe that such disallowances, if any, would have a material effect on the financial position of the Town. Management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed; however, the possible disallowance by the governmental agency of any item charged to a program cannot be determined at this time.

TOWN OF LAKE HAMILTON, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended September 30, 2017

Section I – Summary of Independent Auditor’s Results

Financial Statements

Type of Auditor’s Report Issued:

Unmodified Opinion

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

☒ Yes ☐ No
☒ Yes ☐ None reported
☐ Yes ☒ No

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

☐ Yes ☒ No
☐ Yes ☒ None reported

Type of report issued on compliance for major federal programs:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?

☐ Yes ☒ No

Identification of Major Federal Programs:

CFDA Numbers Name of Federal Programs

66.458	Capitalization Grant for Clean Water State Revolving Funds
66.458	Capitalization Grant for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as a low-risk auditee?

☐ Yes ☒ No

Section II – Financial Statement Findings

None Reported.

Section III – Federal Awards Findings and Question Costs Section

None Reported.

Section IV – Prior Year Audit Findings

None Reported. Not Applicable.

**Independent Accountant's Examination Report over Compliance
With Section 218.415, Florida Statutes**

To the Members of the Town Council of
Town of Lake Hamilton, Florida

I have examined the compliance of Town of Lake Hamilton, Florida (the "Town") with Section 218.415, Florida Statutes for the year ended September 30, 2017. Management is responsible for the Town's compliance with those requirements. My responsibility is to express an opinion the Town's compliance based on my examination.

My examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that I plan and perform the examination to obtain reasonable assurance about whether the Town complied with Section 218.415, Florida Statutes in all material respects. 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 my judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. I believe that the evidence I obtained is sufficient and appropriate to provide a reasonable basis for my opinion.

My examination does not provide a legal determination on the Town's compliance with specified requirements.

In my opinion, Town of Lake Hamilton, Florida complied, in all material respects, with the requirements of Section 218.415, Florida Statutes for the year ended September 30, 2017.

David A. Ramos, CPA

Lakeland, Florida
April 2, 2018

Independent Auditor's Management Letter

Honorable Mayor and Town Council
Town of Lake Hamilton, Florida

Report on the Financial Statements

I have audited the financial statements of the Town of Lake Hamilton, Florida (the "Town"), as of and for the year ended September 30, 2017, and have issued my report thereon dated April 2, 2018.

Auditor's Responsibility

I conducted my 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 of the United States; Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*; and Chapter 10.550, *Rules of the Auditor General*.

Other Reports and Schedule

I have issued my 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*; Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance; Schedule of Findings and Noncompliance; and Independent Accountant's Examination Report over Compliance with Section 218.415, *Florida Statutes*. Disclosures in those reports and schedule, which are dated April 2, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that I determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made the preceding annual financial audit report except as noted below:

Condition 2016-02 Water Deposits Not Reconciled

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that I address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In this regard, I have noted that the Town should increase insurance coverage on certain water system assets (Condition 2017-1).

Section 10.554(1)(i)3., Rules of the Auditor General, requires that I address violations of provisions of contracts and grant agreements or abuse that has an effect on the financial statements that is less than material, but more than inconsequential. There are no such items to report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. For the legal authority of the Town of Lake Hamilton, Florida, refer to Note 1, the summary of significant accounting policies in the notes to financial statements of the basic financial statements.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires a statement to be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition met. I found no evidence that the Town of Lake Hamilton, Florida met any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)5.c., Rules of the Auditor General, requires that I apply financial condition assessment procedures. In connection with my audit, I applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and my financial condition assessment was based in part on representations made by management and the review of financial information provided by the same. I found no evidence that the Town's overall financial condition, as defined by the Auditor General's guidelines, was deteriorating.

Annual Financial Report

Sections 10.554(1)(i)5.b., Rules of the Auditor General, requires that I determine whether the annual financial report for the Town of Lake Hamilton, Florida for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with my audit, I determined that these two reports were in agreement.

Purpose of this Letter

This 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, the Mayor, Town Council and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

David R. Remon, CPA

Lakeland, Florida
April 2, 2018



Town of Lake Hamilton

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April 2, 2018

Corrective Action Plan

This is in response to the matters reported in the Independent Auditor's Findings and Noncompliance Schedule, a component of the 2017 Local Governmental Entity Audit Report.

Condition 2016-2

The water deposits payable detail is not reconciled to the general ledger control account. In response to this condition, Town employees have been instructed to reconcile the detailed records each month. The aid of an outside party may be considered in initially rectifying this condition.

Condition 2017-1

Insurance coverage on the Town's water system assets, namely the hydrogen sulfide removal system, was found to be inadequate. The Town's insurance agent has been instructed to increase coverage to an appropriate level.

I believe this is responsive to the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Marlene M. Wagner".

Marlene M. Wagner
Mayor