



TOWN OF OCEAN RIDGE, FLORIDA

**FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON**

FISCAL YEAR ENDED SEPTEMBER 30, 2016



TOWN OF OCEAN RIDGE, FLORIDA
SEPTEMBER 30, 2016

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SEPTEMBER 30, 2016

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INDEPENDENT AUDITOR’S REPORT

The Honorable Mayor and Members of the Town Commission
Town of Ocean Ridge, Florida

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Ocean Ridge, Florida as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Ocean Ridge, Florida’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Ocean Ridge, Florida as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 76, *The Hierarchy of Generally Accepted Principles for State and Local Governments*; GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*; and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, during the year ended September 30, 2016. Our opinions are not modified with respect to this matter.

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 4 through 9, the budgetary comparison data on pages 58 and 59, the Schedule of Funding Progress - Other Postemployment Benefits on page 60, and pension schedules on pages 61 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017, on our consideration of the Town of Ocean Ridge, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Ocean Ridge, Florida's internal control over financial reporting and compliance.

Nowlen, Holt & Mims, P.A.

West Palm Beach, Florida
June 30, 2017

TOWN OF OCEAN RIDGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2016

Within this section of the Town of Ocean Ridge annual financial report, the Town's management provides a narrative discussion and analysis of the financial activities of the Town for the fiscal year ended September 30, 2016. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the Town's primary government.

FINANCIAL HIGHLIGHTS

- The Town's net position increased as a result of this year's operations. The assets plus deferred outflows of resources of the Town of Ocean Ridge exceeded its liabilities plus deferred inflows of resources at the close of the most recent fiscal year by \$13,661,619 (net position) compared to last year when assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$13,281,070. The net position at the end of 2016 included \$2,702,701 in unrestricted net position.
- The government activities revenues were \$6,245,736 at the close of fiscal year 2016.
- The Town's total expenses were \$5,865,187 during the fiscal year 2016.
- Total fund expenditures were \$5,725,335 during fiscal year 2016, of which the following project was completed: \$76,830 for the new radio system (Capital Projects Fund). Total expenditures for the current year compared to prior year expenditures of \$5,581,529 increased by 3% or \$143,806.
- At the end of the 2016 fiscal year, the unassigned fund balance for the general fund was \$3,311,911 or 59% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The statement of net position includes all of the government's assets, deferred outflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the Town's net position and how it has changed. Net position, the difference between the Town's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position are indicators of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's infrastructure in order to assess the overall health of the Town.

Fund Financial Statements

Fund financial statements provide detailed information about the most significant funds, not the Town as a whole. The Town uses the funds to keep track of specific sources of funding and spending for a particular purpose. All of the town's funds are governmental funds.

- The general fund includes most of the Town's basic services which focus on (1) how cash and other financial assets can be readily converted to cash flow, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.
- The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net Position

The Town's combined net position for the fiscal year ending 2016 is \$13,661,619. This is a \$380,549 increase over last year's net position of \$13,281,070.

Summary of Net Position Total Primary Government

	<u>2015</u>	<u>2016</u>
Current Assets	\$ 4,200,012	\$ 4,664,672
Capital Assets	17,836,215	17,294,996
Total Assets	<u>22,036,227</u>	<u>21,959,668</u>
Deferred Outflows of Resources	<u>712,841</u>	<u>2,059,059</u>
Current Liabilities	173,941	121,955
Non-current liabilities	8,903,101	9,678,613
Total Liabilities	<u>9,077,042</u>	<u>9,800,568</u>
Deferred Inflows of Resources	<u>390,956</u>	<u>556,540</u>
Net Investment in Capital Assets	10,882,823	10,891,893
Restricted for Debt Service	65,968	67,025
Unrestricted	2,332,279	2,702,701
Total Net Position	<u>\$ 13,281,070</u>	<u>\$ 13,661,619</u>

Changes in Net Position

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

The following is a summary of the Town's changes in net position for the year ended September 30:

Summary of Changes in Net Position

	<u>2015</u>	<u>2016</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services	\$ 1,075,070	\$ 1,085,413
Operating grants and contributions	17,524	27,230
Capital grants and contributions	3,443	
General Revenues:		
Property Taxes	3,963,078	4,264,363
Other Taxes	615,469	627,511
Intergovernmental	225,345	207,882
Investment earnings	29,996	29,017
Other	24,999	4,320
Total Revenues	<u>5,954,924</u>	<u>6,245,736</u>
<u>Expenses:</u>		
General Government	1,049,994	1,021,852
Public Safety	2,745,264	3,265,010
Public Services	649,250	704,118
Public Works	624,811	641,466
Other	250,611	232,741
Total Expenses	<u>5,319,930</u>	<u>5,865,187</u>
Increase in net position	634,994	380,549
Net Position, beginning	12,646,076	13,281,070
Net Position, ending	<u>\$ 13,281,070</u>	<u>\$ 13,661,619</u>

The Town implemented the following Governmental Accounting Standard Boards (“GASB”) Statements during the fiscal year ended September 30, 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application*.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*.

See Note 1 to the financial statements for a discussion of the impact of these Statements.

General Fund Budgetary Highlights

Actual expenditures during 2016 were \$450,818 less than budgeted expenditures and actual revenues were \$258,649 more than budgeted amounts, which led to a \$593,817 excess of revenues over expenditures. A \$180,000 transfer was made to the Capital Projects Fund. The overall increase in the Fund Balance was \$422,391.

Capital Asset and Debt Administration

Capital Assets

At the end of the fiscal year 2016, the Town had \$17,294,996 invested in a broad range of capital assets including police equipment, building, infrastructure, and water improvements. Additional information about capital assets can be found in the Note 4 to the financial statements.

The following is a summary of capital assets as of September 30:

Summary of Capital Assets Net of Accumulated Depreciation

	<u>2015</u>	<u>2016</u>
Land	\$ 801,675	\$ 801,675
Construction in Progress	16,287	
Buildings	5,333,349	5,349,636
Equipment	18,357,987	18,358,762
Infrastructure	1,104,027	1,094,397
	<u>25,613,325</u>	<u>25,604,470</u>
Less Accumulated Depreciation	7,777,110	8,309,474
TOTALS	<u>\$ 17,836,215</u>	<u>\$ 17,294,996</u>

Debt and Long-Term Liabilities

As of September 30, 2016, the Town had long-term liabilities of \$3,698,107 owed to the Florida Department of Environmental Protection as part of the State Revolving Loan, a federal program with state match, \$2,704,996 owed to Bank of America for a promissory note, \$90,909 in compensated absences, \$33,544 in other postemployment benefits, and a net pension liability of \$2,706,653.

The Town's long term liabilities are summarized in the following table and are more fully explained in Note 6 to the financial statements.

Summary of Long-Term Liabilities

	<u>2015</u>	<u>2016</u>
State Revolving Fund Loan	\$ 4,054,552	\$ 3,698,107
Bank of America Promissory Note	2,892,328	2,704,996
Net Pension Liability	1,388,496	2,706,653
OPEB	24,675	33,544
Compensated Absences	83,740	90,909
	<u>\$ 8,443,791</u>	<u>\$ 9,234,209</u>

Economic Factors and Next Year's Budgets and Rates

The 2017 fiscal year, general fund revenue projections have been comparable to previous years.

- The General Fund Budget will require unappropriated funds to balance. This includes proposed transfers to Capital Projects.
- This year's budget maintains a millage rate of 5.350, a 7.23% increase over rolled back rate. The currently adopted budget is 2.1% increase over prior year. The total amount of Ad Valorem revenues is an increase of \$132,772 over the prior fiscal year budget.
- The cost for no-see-um spraying is \$68,000, an increase due mostly to the increase in homes serviced which added to the manpower and materials sprayed.
- The Town received \$7,006,817 in State Revolving Fund Loan monies for the various stormwater drainage improvements in 2002 through 2006. The term of the loan is for 20-years with semi-annual payments. The yearly payment amount is \$467,944 made in two (2) payments.
- A 4 year contract with the Police Union will be in effect through September, 2018, as the contract was re-opened and extended for an additional year. The proposed budget includes salaries and benefits approved in the contract which was extended to all employees per Commission direction.
- The police budget has \$93,000 in requests for capital items. These are detailed in the budget document. The major items include \$81,000 for two new fully equipped cars and \$8,400 for desktop and laptop computers.
- The proposed annualized cycle for a road repaving program increased to \$200,000 for the current year budget.
- Boynton Beach Fire Department provides Fire services and Emergency Medical Services (EMS) to the Town. The cost for the 2017 fiscal year will be \$1,058,853. The contract expires September 30, 2028.

Contacting the Town's Financial Management

This financial report is designed to provide our residents and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives and disburses. If you have any questions about this report or need additional information, please contact the Town of Ocean Ridge, 6450 North Ocean Boulevard, Ocean Ridge, Florida 33435.

TOWN OF OCEAN RIDGE, FLORIDA
Statement of Net Position
September 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,956,574
Investments	2,514,993
Accounts receivable (net)	94,863
Prepays	20,251
Restricted cash and cash equivalents	77,991
Capital assets	
Non-depreciable	801,675
Depreciable (net of depreciation)	16,493,321
Total assets	21,959,668
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	1,614,655
Accumulated decrease in fair value - interest rate swap	444,404
Total deferred outflows of resources	2,059,059
LIABILITIES	
Current liabilities	
Accounts payable	63,100
Accrued payroll	28,111
Accrued interest payable	19,778
Accrued interest payable from restricted assets	10,966
Non-current liabilities	
Interest rate swap	444,404
Due within one year	598,895
Due in more than one year	8,635,314
Total liabilities	9,800,568
DEFERRED INFOWS OF RESOURCES	
Pension related items	556,291
Unearned revenue	249
Total deferred inflows of resources	556,540
NET POSITION	
Net investment in capital assets	10,891,893
Restricted for debt service	67,025
Unrestricted	2,702,701
Total net position	\$ 13,661,619

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2016

Function / Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities					
General government	\$ 1,021,852	\$ 449,291	\$ 27,230	\$	\$ (545,331)
Public safety	3,265,010	309,575			(2,955,435)
Public works	641,466				(641,466)
Public services	704,118	326,547			(377,571)
Interest on long term debt	232,741				(232,741)
Total governmental activities	5,865,187	1,085,413	27,230		(4,752,544)
General revenues					
Property taxes					4,264,363
Utility service taxes					411,170
Franchise taxes					160,962
Gasoline taxes					55,379
State shared revenues - unrestricted					187,482
Local shared revenues - unrestricted					20,400
Interest income					29,017
Net decrease in fair value of investments					(1,469)
Gain on disposal of assets					5,789
Total general revenues					5,133,093
Change in net position					380,549
Net position, beginning of year					13,281,070
Net position, end of year					\$ 13,661,619

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2016

	General	Capital Projects	Total
ASSETS			
Cash and cash equivalents	\$ 1,730,712	\$ 225,862	\$ 1,956,574
Investments	2,514,993		2,514,993
Accounts receivable (net)	94,863		94,863
Prepaid items	20,251		20,251
Restricted cash and cash equivalents	77,991		77,991
Total assets	\$ 4,438,810	\$ 225,862	\$ 4,664,672
LIABILITIES			
Accounts payable	\$ 63,100	\$	\$ 63,100
Accrued payroll	28,111		28,111
Total liabilities	91,211		91,211
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	249		249
Total deferred inflows of resources	249		249
FUND BALANCES			
Non-Spendable:			
Prepays	20,251		20,251
Restricted for:			
Debt service	77,991		77,991
Assigned to:			
Self insurance	160,000		160,000
Drainage	370,000		370,000
Beautification	115,000		115,000
Subsequent year budget	292,197		292,197
Capital projects		225,862	225,862
Unassigned	3,311,911		3,311,911
Total fund balances	4,347,350	225,862	4,573,212
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,438,810	\$ 225,862	\$ 4,664,672

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
September 30, 2016

Fund balances total governmental funds		\$ 4,573,212
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 25,604,470	
Less accumulated depreciation	<u>(8,309,474)</u>	17,294,996
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Unavailable revenue		
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	(90,909)	
Loans payable	(6,403,103)	
Net pension liability	(2,706,653)	
Other postemployment benefits	(33,544)	
Accrued interest on long-term debt	<u>(30,744)</u>	(9,264,953)
Deferred outflows of resources and deferred inflows of resources related to defined benefit pension plans are applicable to future periods and are not reported in the governmental funds.		
Pension related deferred outflows	1,614,655	
Pension related deferred inflows	<u>(556,291)</u>	<u>1,058,364</u>
Net position of governmental activities		<u><u>\$ 13,661,619</u></u>

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 4,264,363	\$	\$ 4,264,363
Utility service taxes	411,170		411,170
Gasoline taxes	55,379		55,379
Sales taxes	141,383		141,383
Local business tax	2,194		2,194
Electric franchise fee	160,962		160,962
State shared revenues	44,236		44,236
Local shared revenues	21,921		21,921
Licenses and permits	429,599		429,599
Special assessments	22,733		22,733
Fines and forfeitures	40,386		40,386
Charges for services	590,501		590,501
Interest	28,968	49	29,017
Decrease in fair value	(1,469)		(1,469)
Contributions	27,230		27,230
Miscellaneous	1,863		1,863
Total revenues	<u>6,241,419</u>	<u>49</u>	<u>6,241,468</u>
EXPENDITURES			
Current			
General government	769,787		769,787
Public safety	3,005,487		3,005,487
Public works	229,784	903	230,687
Public services	704,118		704,118
Debt service			
Principal	543,777		543,777
Interest	235,167		235,167
Capital outlay	159,482	76,830	236,312
Total expenditures	<u>5,647,602</u>	<u>77,733</u>	<u>5,725,335</u>
Excess (deficiency) of revenues over expenditures	<u>593,817</u>	<u>(77,684)</u>	<u>516,133</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	8,574		8,574
Transfers in		180,000	180,000
Transfers out	(180,000)		(180,000)
Total other financing sources (uses)	<u>(171,426)</u>	<u>180,000</u>	<u>8,574</u>
Net change in fund balances	422,391	102,316	524,707
Fund balances, beginning of year	<u>3,924,959</u>	<u>123,546</u>	<u>4,048,505</u>
Fund balances, end of year	<u>\$ 4,347,350</u>	<u>\$ 225,862</u>	<u>\$ 4,573,212</u>

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2016

Net change in fund balances - total governmental funds \$ 524,707

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 236,312	
Less: current year depreciation	<u>(774,746)</u>	(538,434)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on debt		543,777
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Gains and losses on the disposal of fixed assets are not reported in the governmental funds but are reported in the statement of activities

Net book value of fixed asset disposals		(2,785)
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Governmental funds report revenues when earned and available. However, in the Statement of Activities, revenues are recognized when earned, regardless of availability.

Change in unavailable revenue		(1,521)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in accrued interest payable	2,426	
Increase in compensated absences payable	(7,169)	
Increase in other postemployment benefits	(8,869)	
Change in net pension liability and related deferred amounts	<u>(131,583)</u>	<u>(145,195)</u>

Change in net position		<u>\$ 380,549</u>
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See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Ocean Ridge, Florida (the “Town”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Town’s significant accounting policies are described below.

Reporting Entity

The Town of Ocean Ridge, Florida is a municipal corporation organized pursuant to Chapter 15088, 1931 Laws of Florida, and governed by an elected five-member Commission. The Town Commission is responsible for the establishment and adoption of policy. The Commission appoints a Town Manager who is responsible for the execution of policy. The Town's major operations include law enforcement and fire control, protective inspections, sanitation, environmental, public works, civil defense, and general and administrative services.

As required by generally accepted accounting principles, these financial statements include the Town (the primary government) and its component units. Component units are legally separate entities for which the Town is financially accountable. The Town is financially accountable if:

- a) the Town appoints a voting majority of the organization’s governing board and (1) the Town is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town, or
- b) the organization is fiscally dependent on the Town and (1) there is a potential for the organization to provide specific financial benefits to the Town or (2) impose specific financial burdens on the Town.

Organizations for which the Town is not financially accountable are also included when doing so is necessary in order to prevent the Town’s financial statements from being misleading.

Based upon application of the above criteria, management of the Town has determined that no component units exist which would require inclusion in this report. Further, the Town is not aware of any entity that would consider the Town to be a component unit.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements

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

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

Fund financial statements are provided for governmental funds. The Town has no fund types other than governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. The Town does not accrue property tax revenues since the collection of these taxes coincides with the fiscal year in which levied, and since the Town consistently has no material uncollected property taxes at year end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

Fines and permit revenues are not susceptible to accrual because generally, they are not measurable until received in cash. Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenues, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

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

The Town reports the following major governmental funds:

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

The Capital Projects Fund accounts for the financial resources for the acquisition or construction of major capital facilities.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in demand accounts and money market accounts. The Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of fair value measurement in both cases is the same, that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The Town categorizes investments reported at fair value in accordance with the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*.

Accounts Receivable

Accounts receivable of the General Fund consists of billed and unbilled receivables. The Town has not established an allowance for doubtful accounts because the Town considers all receivables to be collectible.

Prepaid Items

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

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported in the government-wide financial statements and include plant, property, equipment, and infrastructure assets (i.e., roads, bridges, and sidewalks). These assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34 and has elected not to report major general infrastructure assets retroactively. Depreciation has been provided over the useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	30 years
Roadways	30 years
Water distribution and drainage systems	40 years
Police and fire equipment	7 - 10 years
Furniture and other equipment	3 - 7 years

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. All vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Town employees who are union members may accumulate up to 84 hours of vacation leave and other employees may accumulate up to 80 hours. Town employees hired on or after May 7, 1991 may accumulate up to 20 days of sick leave. Employees hired prior to May 7, 1991 shall not be subject to the 20 days of sick leave maximum. Accumulated vacation is payable to employees upon termination or retirement at the rate of pay on that date. Sick leave can be used for paid time off or paid to employees upon termination or retirement for one-fourth of the days of unused sick leave at the rate of pay on that date. Compensated absences are liquidated in the General Fund.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Swaps

The Town enters into interest rate swap agreements to modify interest rates on outstanding debt.

Interest Cost

Interest costs in governmental funds are charged to expenditures as incurred. Construction period interest incurred in governmental funds is not capitalized.

Unearned Revenue

The government reports unearned revenue on its government wide statement of net position and governmental funds balance sheet. Unearned revenue arises when resources are obtained prior to revenue recognition. In subsequent periods, when revenue recognition criteria are met the unearned revenue is removed and revenue is recognized.

Unavailable Revenue

The government reports unavailable revenue on its governmental funds balance sheet for resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered available.

Encumbrances

Encumbrance accounting is used for purposes of budgetary control and contract compliance. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to earmark that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Because appropriations expire at year end, the Town's policy is to automatically add encumbered amounts at year end to the subsequent year budget.

Deferred Outflows of Resources

The government wide Statement of Net Position and the Governmental Funds Balance Sheet will sometimes include a separate section for deferred outflows of resources. This financial statement element represents a consumption of net position applicable to future periods and will not be recognized as expenditures until the future period(s). The Town has two items that qualify for reporting in this category. They are pension related items and the accumulated decrease in fair value of an interest rate swap.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources

The government wide Statement of Net Position and the Governmental Funds Balance Sheet will sometimes include a separate section for deferred inflows of resources. This financial statement element represents the acquisition of net position applicable to future periods and will not be recognized as revenue until the future period(s). The Town has two items that qualify for reporting in this category. They are pension related items and business tax receipts that are received by the Town prior to the period for which the taxes are levied.

Interfund Transactions

Transactions between funds consist of loans, services provided, reimbursements, or transfers. Interfund loans are reported as Due From Other Funds and Due to Other Funds as appropriate and are subject to elimination in the government-wide financial statements. Services deemed to be reasonably equivalent in value are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost. All other interfund transactions are presented as transfers.

Fund Balances

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported under the following categories:

1. Nonspendable fund balances – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

2. Restricted fund balance – Includes amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed fund balance – Includes amounts that can be used only for specific purposes pursuant to constraints imposed by an ordinance, the Town’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action employed to previously commit those amounts.
4. Assigned fund balance – Includes amounts intended to be used by the Town for specific purposes, but are neither restricted nor committed. In accordance with the Town’s fund balance policy, assignments may be made by formal action of the Town Commission or authority may be delegated to the Town Manager.
5. Unassigned fund balance – Includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the Town’s policy to reduce restricted amounts first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Town’s policy to reduce committed amounts first, followed by assigned amounts, then unassigned amounts.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position is the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets plus deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position is displayed in the following three components:

1. 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, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on the use either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Budgetary Data

Formal budgetary integration is employed as a management control device during the year for the General Fund and the Capital Projects Fund. All budgets are legally enacted. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by appropriate action.

Property Taxes

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 laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

The tax levy of the Town is established by the Town Commission prior to October 1 of each year, and the Palm Beach County Property Appraiser incorporates the Town's millage into the total tax levy, which includes Palm Beach County and Palm Beach County School Board tax requirements. The millage rate assessed by the Town for the year ended September 30, 2016 was 5.3500 (\$5.3500 for each \$1,000 of assessed valuation).

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

All property is reassessed according to its fair market value January 1 of each year, which is also the lien date. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all the appropriate requirements of state statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount.

Delinquent taxes on real 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. After the sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations.

Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Governmental Accounting Standards Board Statements

The Town implemented the following Governmental Accounting Standards Board Statements during the fiscal year ended September 30, 2016.

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value of certain investments and disclosures related to all fair value measurements. The adoption of this statement resulted in improved disclosures related to the fair value of investments.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Adoption of this statement did not impact the Town's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement identifies – in the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles. The adoption of this statement did not impact the Town's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of this statement resulted in improved disclosures for the Town's investment in the Florida Prime investment pool.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this statement did not have any significant impact on the Town's financial statements.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

A brief description of new accounting pronouncements that might have a significant impact on the Town's financial statements is presented below. Management is currently evaluating the impact of adoption of these statements in the Town's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement improves the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local government OPEB plans for making decisions and assessing accountability. This Statement is effective for the fiscal year ending September 30, 2017.

In June 2015 the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for the fiscal year ending September 30, 2018.

In August 2015 the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. This Statement is effective for the fiscal year ending September 30, 2017.

In December 2015 the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement is effective for the fiscal year ending September 30, 2017.

NOTE 2 – BUDGETARY INFORMATION

Budget Policy and Practice

The Town Manager submits an annual budget to the Town Commission in accordance with the Town Charter and the Florida Budget Act. The budget is presented to the Town Commission for review, and public hearings are held to address priorities and the allocation of resources. In September, the Town Commission adopts the annual fiscal year appropriated budgets for the Town funds. Once approved, the Town Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 2 – BUDGETARY INFORMATION (Continued)

Basis of Budgeting

The General Fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department, which constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the Town Commission. Within these control levels, the Town Manager may transfer appropriations between line items.

The budget for the General Fund is prepared on the basis of generally accepted accounting principles in the United States of America. The budget and actual financial statements are also reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

At September 30, 2016, the Town had encumbrances of \$25,616 in the General Fund.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Deposits are either covered by insurance provided by the Federal Depository Insurance Corporation or are held in banking institutions approved by the Treasurer of the State of Florida. Under Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or other banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes. As of September 30, 2016, the bank balance of the Town's deposits was \$2,088,072 and the carrying amount was \$2,034,415. The Town also had \$150 in petty cash for a total carrying amount of \$2,034,565.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments

The Town has not adopted a written investment policy. Florida Statutes authorize units of local government electing not to adopt a written investment policy to invest in the following instruments:

- a. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories.
- d. Direct obligations of the U.S. Treasury.

GASB Statement No. 72, *Fair Value Measurement and Application*, requires governments to disclose the fair value hierarchy for each type of asset or liability measured at fair value in the notes to the financial statements. The standard also requires governments to disclose a description of the valuation techniques used in the fair value measurement and any significant changes in valuation techniques. GASB 72 establishes a three-tier fair value hierarchy. The hierarchy is based on valuation inputs used to measure the fair value as follows:

- | | |
|----------|--|
| Level 1: | Inputs are directly observable, quoted prices in active markets for identical assets or liabilities. |
| Level 2: | Inputs are other than quoted prices included within Level 1 that are for the asset or liability, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means. |
| Level 3: | Inputs are unobservable inputs used only when relevant Level 1 and Level 2 inputs are unavailable. |

The level in which an asset is assigned is not indicative of its quality but an indication of the source of valuation inputs.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

As of September 30, 2016, the Town reported the following investments:

Investment	Maturity	Fair Value		Credit Rating
U.S. Treasury Bill	97 days	\$	999,192	AAA
U.S. Treasury Note	0.45 years		500,664	AAA
U.S. Treasury Note	1.92 years		506,758	AAA
U.S. Treasury Note	2.66 years		<u>508,379</u>	AAA
			<u><u>\$ 2,514,993</u></u>	

<u>Investments by Fair Value Level</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Notes	\$ 1,515,801	\$	\$	\$ 1,515,801

<u>Investments Measured at Amortized Cost</u>				
U.S. Treasury Bill				<u>999,192</u>
	Total Fair Value			<u><u>\$ 2,514,993</u></u>

The U.S. Treasury Bill is exempt from reporting under the fair value hierarchy and is measured at amortized cost.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Town's investment policies limit its investments to high quality investments to control credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2016, all the Town's investments were insured or collateralized.

NOTE 4 – CAPITAL ASSETS

Depreciation expense was charged to functions and programs of the primary government as follows:

Governmental activities:	
General government	\$ 252,092
Public safety	117,100
Public works	<u>405,554</u>
Total depreciation expense for governmental activities	<u>\$ 774,746</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 4 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended September 30, 2016, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 801,675	\$	\$	\$ 801,675
Construction in progress	16,287		(16,287)	
Total non-depreciable assets	<u>817,962</u>		<u>(16,287)</u>	<u>801,675</u>
Capital assets being depreciated				
Building	5,333,349	16,287		5,349,636
Infrastructure	18,357,987	775		18,358,762
Equipment	1,104,027	235,537	(245,167)	1,094,397
Total depreciable assets	<u>24,795,363</u>	<u>252,599</u>	<u>(245,167)</u>	<u>24,802,795</u>
Total capital assets	<u>25,613,325</u>	<u>252,599</u>	<u>(261,454)</u>	<u>25,604,470</u>
Less accumulated depreciation				
Buildings	(1,332,699)	(175,208)		(1,507,907)
Infrastructure	(5,694,507)	(456,357)		(6,150,864)
Equipment	(749,904)	(143,181)	242,382	(650,703)
Total accumulated depreciation	<u>(7,777,110)</u>	<u>(774,746)</u>	<u>242,382</u>	<u>(8,309,474)</u>
Depreciable assets, net	<u>17,018,253</u>	<u>(522,147)</u>	<u>(2,785)</u>	<u>16,493,321</u>
Capital assets, net	<u>\$ 17,836,215</u>	<u>\$ (522,147)</u>	<u>\$ (19,072)</u>	<u>\$ 17,294,996</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 5 – RECEIVABLES

Receivables as of September 30, 2016, for the Town’s major funds are as follows:

	General Fund
Taxes receivable	\$ 64,135
Due from other governments	21,674
Accounts receivable - billed	3,417
Interest receivable	5,174
Other receivables	463
Total receivables	94,863
Less allowance for uncollectible accounts	
Net receivables	\$ 94,863

NOTE 6 – LONG-TERM LIABILITIES

State Revolving Loan Fund

The State Revolving Loan Fund was initially obtained by the Town in 2002 in the amount of \$439,398 for planning and design for major drainage improvements. The loan was amended in 2004 to include an additional \$3,988,000 for construction, amended again in 2005 for additional construction funds of \$1,679,076 and amended again in 2006 for additional construction funds of \$900,343. The loan is payable from and secured by the Local Government Half-cent Sales Tax revenue, Florida Power and Light Franchise Tax revenue, Communications Service Tax revenue, and Utility Service Tax revenues received yearly. Principal and interest paid for the current fiscal year was \$467,944 and total pledged revenues were \$713,515. At September 30, 2016, principal and interest to maturity in 2025 to be paid from pledged future revenues totaled \$4,211,493. As of September 30, 2016, outstanding principal, including capitalized interest, was \$3,698,107. The loan bears interest of approximately 3%.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued)

State Revolving Loan Fund (Continued)

Estimated annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2016 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 366,529	\$ 101,415	\$ 467,944
2018	376,906	91,038	467,944
2019	387,578	80,366	467,944
2020	398,551	69,393	467,944
2021	409,835	58,109	467,944
2022-2025	<u>1,758,708</u>	<u>113,065</u>	<u>1,871,773</u>
	<u>\$ 3,698,107</u>	<u>\$ 513,386</u>	<u>\$ 4,211,493</u>

Bank of America Town Hall Promissory Note

The \$4,000,000 Bank of America Promissory Note was obtained in August 2007 for the purpose of constructing a new town hall. Interest only is due for the first twelve months in quarterly payments beginning November, 2007. Thereafter, interest and principal are due in quarterly payments through August 2027. The interest rate will be a variable rate calculated at the beginning of each month equal to the sum of 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%. As of September 30, 2016, the interest rate was 1.13832%.

Interest Rate Swap

Terms and Objectives: In an effort to lower its borrowing costs when compared against fixed rate loans at the time of issuance, the Town issued the \$4,000,000 variable rate Bank of America Promissory Note and entered into a corresponding pay fixed rate swap agreement. The objective of the swap is to change the Town’s variable rate loan into a synthetic fixed rate instrument. Based on the swap agreement, the Town pays a fixed rate of 4.315% to the counterparty of the swap, based on the notational amount. In return, the counterparty pays interest based on an applicable rate that is equal to 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%. The loan principal is not exchanged; it is only the basis on which the interest payments are calculated. The effective date of the swap was September 1, 2007 and the termination date is August 1, 2027. The notational amount of the swap is the same as the principal amount of the loan. The notational amount was \$4,000,000 at the effective date of the swap and \$2,704,996 as of September 30, 2016.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Interest Rate Swap (Continued)

The interest rate swap is a derivative instrument as defined in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The primary objective of this derivative is to function as a hedging instrument. The interest rate swap is classified as a discrete cash flow hedge. As a derivative instrument associated with a hedgeable item, this interest rate swap is effective by significantly reducing an identified financial risk by substantially offsetting changes in the cash flows of the Bank of America Promissory Note. The Town used the synthetic instrument method to evaluate hedge effectiveness for the swap.

Basis Risk: The Town is not exposed to basis risk because the variable payment received from the counterparty is determined on the same basis as that used to calculate the promissory note variable rate. The promissory note and counterparty interest rates are both equal to 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%.

Fair Value: As of September 30, 2016, the swap had a negative fair value of \$444,404 because interest rates have declined since the execution of the swap. The fair value increased \$14,906 during the fiscal year ended September 30, 2016 from a negative fair value of \$459,310 at September 30, 2015. The fair values are estimated using a proprietary valuation model developed by the counterparty. This valuation method estimates future cash flows by projecting forward rates, and then discounts those cash flows to their present value. The valuation inputs used to measure the fair value of the swap are significant other observable inputs including quoted prices for similar assets in active and non-active markets. The swap's fair value is categorized as level 2 in the fair value hierarchy in accordance with GASB Statement No. 72.

Credit Risk: As of September 30, 2016, the Town was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Town would be exposed to credit risk in the amount of the derivative's fair value. As of September 30, 2016, the long-term senior unsecured debt of Bank of America, N.A., the swap's counterparty, was rated A+ by Fitch Ratings, A+ by Standard & Poor's, and A1 by Moody's Investors Service.

Termination Risk: The Town's derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Town or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the swap has a negative fair value, the Town would be liable to the counterparty for a payment equal to the swap's fair value.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Interest Rate Swap (Continued)

Rollover Risk: The Town is not exposed to rollover risk because the maturity date for the hedged Bank of America Promissory Note is the same as the termination date for the interest rate swap.

Foreign Currency Risk: The Town is not exposed to foreign currency risk on the interest rate swap.

Swap Payments and Associated Debt: The interest rate swap agreement does not affect the Town's obligation to repay the principal and variable rate interest on the Bank of America Promissory Note under the terms of the loan agreement. The following table presents debt service payments on the variable rate loan, net of associated swap payments. The calculations are based on the assumption that the rates as of September 30, 2016 remain constant over the life of the loan.

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Variable Rate Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Net Cash Flows</u>
2017	\$ 196,002	\$ 30,382	\$ 84,787	\$ 311,171
2018	204,719	28,082	78,370	311,171
2019	213,823	25,681	71,667	311,171
2020	223,092	23,236	64,843	311,171
2021	233,254	20,555	57,362	311,171
2022-2026	1,331,274	59,246	165,335	1,555,855
2027	302,832	2,200	6,139	311,171
Totals	<u>\$ 2,704,996</u>	<u>\$ 189,382</u>	<u>\$ 528,503</u>	<u>\$ 3,422,881</u>

Interest Expense

Total interest costs incurred and paid on all Town debt for the year ended September 30, 2016 was \$232,741 and \$235,167, respectively.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 6 – LONG-TERM LIABILITIES (Continued)

During the year ended September 30, 2016, the following changes occurred in long-term liabilities:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revolving Fund Loan	\$ 4,054,552	\$	\$ (356,445)	\$ 3,698,107	\$ 366,529
Bank of America Loan	2,892,328		(187,332)	2,704,996	196,002
Net pension liability	1,388,496	1,318,157		2,706,653	
OPEB	24,675	12,240	(3,371)	33,544	
Compensated absences	<u>83,740</u>	<u>118,053</u>	<u>(110,884)</u>	<u>90,909</u>	<u>36,364</u>
	<u>\$ 8,443,791</u>	<u>\$ 1,448,450</u>	<u>\$ (658,032)</u>	<u>\$ 9,234,209</u>	<u>\$ 598,895</u>

NOTE 7 – FLORIDA RETIREMENT SYSTEM

General Information

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

Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and escribed in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000 or calling toll free at 877-377-1737. The report is also available at the Florida Department of Management Services web site www.dms.myflorida.com.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System Pension Plan (FRSP) and the Florida Retirement System Health Insurance Subsidy Program and additions to/deduction from the FRSP and HIS fiduciary net position have been determined on the same basis as they are reported by FRSP and HIS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value

Pension Plan

Plan Description

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

- Regular Class
- Special Risk Class
- Elected Officials Class
- Senior Management Service Class

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service.

Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Benefits Provided

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

The following table shows the percentage value for each year of service credit earned:

Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60%
Retirement at age 63 or with 31 years of service	1.63%
Retirement at age 64 or with 32 years of service	1.65%
Retirement at age 65 or with 33 or more years of service	1.68%
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60%
Retirement at age 66 or with 34 years of service	1.63%
Retirement at age 67 or with 35 years of service	1.65%
Retirement at age 68 or with 36 or more years of service	1.68%
Special Risk Class	
Service from December 1, 1970 through September 30, 1974	2.00%
Service on or after October 1, 1974	3.00%
Elected Officials Class	3.00%
Senior Management Service Class	2.00%

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

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

Contributions

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the fiscal year ended September 30, 2016 were as follows:

Class	10/01/15 through 06/30/16	07/01/16 through 09/30/16
Regular Class	7.26%	7.52%
Senior Management Service Class	21.43%	21.77%
Special Risk Class	22.04%	22.57%
DROP	12.88%	12.99%

Except for the DROP, the employer contribution rates include a 1.66% HIS Plan subsidy. The rates also include 0.04% and 0.06% for administrative costs of the Public Employee Optional Retirement Program for the period from October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively.

For the fiscal year ended September 30, 2016, the Town made contributions of \$196,937 to the Pension Plan and the Town's employees made contributions of \$36,295, for total contributions of \$233,232.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

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

At September 30, 2016, the Town reported a liability of \$2,103,614 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Town's proportionate share of the net pension liability was based on the Town's 2015-16 plan year contributions relative to the 2015-16 plan year contributions of all participating members. At June 30, 2016, the Town's proportionate share was .0083331117 percent, which was an increase of .001312895 percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$317,849 related to the Plan. In addition the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 161,069	\$ 19,586
Change of assumptions	127,262	
Net difference between projected and actual earnings on Pension Plan investments	967,740	423,982
Change in proportion and differences between Town Pension Plan contributions and proportionate share of contributions	156,038	107,839
Town Pension Plan contributions subsequent to the measurement date	57,365	
Total	<u>\$ 1,469,474</u>	<u>\$ 551,407</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The deferred outflows of resources related to the Pension Plan, totaling \$57,365 resulting from Town contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Amount</u>
2017	\$ 109,008
2018	109,008
2019	320,999
2020	239,020
2021	60,638
Thereafter	22,029
	<u>\$ 860,702</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2016
Measurement date	June 30, 2016
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, net of pension plan investment expense, including inflation
Mortality	Generational RP-2000 with projection scale BB
Actuarial cost method	Individual Entry Age

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

<u>Asset Class</u>	(1) <u>Target Allocation</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.0%	3.0%	3.0%	1.7%
Fixed Income	18.0%	4.7%	4.6%	4.6%
Global Equity	53.0%	8.1%	6.8%	17.2%
Real Estate (Property)	10.0%	6.4%	5.8%	12.0%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	11.1%
Total	<u>100.0%</u>			
Assumed Inflation - Mean		2.60%		1.90%

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

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. The Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Town’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	<u>1% Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1% Increase</u>
	<u>(6.60%)</u>	<u>(7.60%)</u>	<u>(8.60%)</u>
Town's proportionate share of the net pension liability	\$ 3,872,895	\$ 2,103,614	\$ 630,920

Pension Plan Fiduciary Net Position

Detailed information regarding the Pension Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At September 30, 2016, the Town reported no payable for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy (HIS) Program

Plan Description

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

Benefits Provided

For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

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

The Town's contributions to the HIS Plan totaled \$27,780 for the fiscal year ended September 30, 2016.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy (HIS) Program (Continued)

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

At September 30, 2016, the Town reported a liability of \$603,039 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Town's proportionate share of the net pension liability was based on the Town's 2015-16 plan year contributions relative to the 2015-16 plan year contributions of all participating members. At June 30, 2016, the Town's proportionate share was .005174263 percent, which was an increase of .000448052 percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$56,432. In addition the Town reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$ 1,374
Change of assumptions	94,632	
Net difference between projected and actual earnings on Pension Plan investments	305	
Change in proportion and differences between Town Pension Plan contributions and proportionate share of contributions	43,090	3,510
Town Pension Plan contributions subsequent to the measurement date	7,154	
Total	<u>\$ 145,181</u>	<u>\$ 4,884</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy (HIS) Program (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The deferred outflows of resources related to the HIS Plan, totaling \$7,154 resulting from Town contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2017	\$ 23,081
2018	23,081
2019	23,023
2020	22,995
2021	21,416
Thereafter	19,547
	<u>\$ 133,143</u>

Actuarial Assumptions

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2016
Measurement date	June 30, 2016
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.85%
Investment rate of return	N/A
Mortality	Generational RP-2000 with Projection Scale BB
Actuarial cost method	Individual Entry Age

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy (HIS) Program (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the Town’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the Town’s proportionate share of the net pension liability calculated using the discount rate of 2.85%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.85%) or one percentage point higher (3.85%) than the current rate:

	<u>1% Decrease</u> <u>(1.85%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(2.85%)</u>	<u>1% Increase</u> <u>(3.85%)</u>
Town's proportionate share of the net pension liability	\$ 691,823	\$ 603,039	\$ 529,353

Pension Plan Fiduciary Net Position

Detailed information regarding the HIS Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At September 30, 2016, the Town reported no payable for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Summary Data

The following table provides a summary of significant information related to the Florida Retirement System defined benefit plans for the year ended September 30, 2016.

Description	Pension Plan	HIS Plan	Total
Proportionate share of total pension liability	\$ 13,915,548	\$ 608,930	\$ 14,524,478
Proportionate share of plan fiduciary net position	11,811,934	5,891	11,817,825
Proportionate share of net pension liability	2,103,614	603,039	2,706,653
Proportionate share of deferred outflows of resources	1,469,474	145,181	1,614,655
Proportionate share of deferred inflows of resources	551,407	4,884	556,291
Pension expense	317,849	56,432	374,281

Investment Plan

Plan Description

The Florida Retirement System Investment Plan is a defined contribution retirement plan qualified under Section 401(a) of the Internal Revenue Code. The Florida Legislature enacted the Plan during the 2000 legislative session, and amendments to the Plan can only be made by an act of the Florida Legislature. The Plan is administered by the State Board of Administration of Florida. The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. Town employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Investment Plan (Continued)

Funding Policy

The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected Officers, etc.), as the Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members.

Participating employers are required to make contributions based upon statewide contributions rates. The contribution rates by job class for the Town’s employees for the fiscal year ended September 30, 2016, are as follows:

Class	10/01/15 through 06/30/16	07/01/16 through 09/30/16
Regular Class	7.26%	7.526%
Senior Management Service Class	21.43%	21.77%
Special Risk Class	22.04%	22.57%
DROP	12.88%	12.99%

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the Town.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Investment Plan (Continued)

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

The Town's Investment Plan pension expense totaled \$40,097 for the fiscal year ended September 30, 2016.

NOTE 8 – DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets of the plan are invested in either mutual funds or insurance contracts. In 1998, the Plan was amended to conform to changes in the Internal Revenue Code brought about by the Small Business Job Protection Act of 1996 (the "Act"). The Act requires that eligible deferred compensation plans established and maintained by governmental employers be amended to provide that all assets of the plan be held in trust, or under one or more appropriate annuity contracts or custodial accounts, for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, plan assets are no longer subject to the claims of the Town's general creditors.

Because the Town has little administrative involvement and does not perform the investing function for funds in the Plan, the Town's activities do not meet the criteria for inclusion in the fiduciary funds of a government.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 9 – INTERLOCAL AGREEMENTS

Interlocal Fire and EMS Service Agreement with the City of Boynton Beach

On May 4, 2004, the Town entered into an agreement with the City of Boynton Beach whereby the City of Boynton Beach will provide the Town with fire rescue and emergency medical services. The term of the agreement is for 12 years beginning on October 1, 2004, and extending through September 30, 2016. The annual service fee the Town paid under the agreement was \$1,018,127 in the current fiscal year. On October 1, 2016, the Town entered into a new agreement with the City of Boynton Beach to continue the provision of fire rescue and emergency medical service. The term of the agreement is for 12 years commencing on October 1, 2016 and ending September 30, 2028. The annual fee for the year ending September 30, 2017, will be \$1,058,853.

The parties agree to negotiate in good faith an adjustment to the annual fee which may be necessary to offset any increased costs incurred by the City for providing the services and programs due to unfunded mandates specifically directed toward the provision of fire rescue services, of the Federal, State, or County government and to address any unforeseen events or contingencies. The parties agree that the Town shall not be charged an amount greater than 5% of the annual fee on an annual basis due to any unfunded mandates. The parties further agree that in no event shall any increases due to unfunded mandates exceed 10% in a three year period.

The annual fee for the year ending September 30, 2017, will be \$1,058,853. In addition to the adjustments due to unfunded mandates, the annual fee for each succeeding year of the agreement shall be determined by incorporating the May All Urban Consumer Price Index for the Miami-Ft. Lauderdale region or an increase of 4%, whichever is greater.

Interlocal Agreement for Law Enforcement Services

On October 1, 2013, the Town entered into an agreement with the Town of Briny Breezes to provide professional law enforcement services within the territorial boundaries of the municipality of Briny Breezes. The term of the agreement is for 3 years beginning October 1, 2013 and extending through September 30, 2016. The annual service fee the Town received was \$213,145 in the current fiscal year. The agreement ended September 30, 2016 and was not renewed.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town has not significantly reduced insurance coverage from the prior year, and there were no settled claims which exceeded insurance coverage during the past three fiscal years.

Florida Statutes limit the Town's maximum loss for most liability claims to \$200,000 per person and \$300,000 per occurrence under the Doctrine of Sovereign Immunity. However, under certain circumstances, a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in Florida Statutes do not apply to claims filed in Federal courts.

NOTE 11 – COMMITMENTS

Inspection Services

On August 1, 2012, the Town entered into an agreement with Hy-Byrd Incorporated to perform the services of building official. The agreement was for a three year term and expired on August 1, 2015. The agreement was renewed for an additional three year term that expires on August 1, 2018. However, the agreement may be terminated by either party with thirty days written notice. Under the terms of the agreement, the Town pays Hy-Byrd a specified fee for plan review and building inspection services. Other standard building official services are paid based on an hourly rate. The Town is invoiced monthly for services performed. For the year ended September 30, 2016, the Town incurred costs of \$179,901 for inspection services pursuant to the agreement.

Solid Waste and Recycling Collection Services

Effective October 1, 2009, the Town entered into an agreement with Republic Services of Florida, Limited Partnership (Republic) for solid waste and recycling collection services. The agreement is for a five year term ending September 30, 2014, with an option to renew for an additional five years. In June 2014, the Town exercised the option to renew the agreement for an additional five year term ending September 30, 2019. Under the terms of the agreement, the Town pays an established rate per month per unit picked up curbside or containerized. Republic bills the Town monthly for services provided. For the year ended September 30, 2016, the Town made payments of \$243,147 pursuant to the agreement.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 11 – COMMITMENTS (Continued)

Solid Waste and Recycling Collection Services

On July 12, 2010, the agreement was amended to include debris management support services for storm debris in the event of a natural disaster. Under the terms of the agreement, Republic will collect construction and vegetative debris curbside resulting from a natural disaster impacting the Town and any other areas agreed to by both parties. Republic will be the exclusive provider for collection of disaster debris resulting from a natural disaster impacting the Town.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

The Town implemented Governmental Accounting Standards Board Statement 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective October 1, 2009. The Town elected to implement prospectively, and the change in accounting principle had no effect on changes in net position/fund equity for prior periods. Retirees of the Town pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other postemployment benefits (OPEB) under GASB 45.

Plan Description

The Town provides a single employer defined benefit health care plan to all of its employees. The plan allows its employees and their beneficiaries to continue to obtain health benefits upon retirement. The normal retirement age for Town employees is age 60. The benefits of the plan are in accordance with Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

Funding Policy

The Town does not directly make a contribution to the plan on behalf of retirees. Retirees and their beneficiaries pay the same group rates as are charged to the Town for active employees by its healthcare provider. However, the Town's actuaries in their actuarial valuation, calculate an offset to the cost of these benefits as an Employer Contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Town or its active employees for coverage of the retirees and their dependents for the year net of the retiree's own payments for the year.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Town’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Town has elected to calculate the ARC and related information using the Alternative Measurement Method permitted under GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation for the Town for the current year and the related information are as follows:

Required contribution rate - employer	Pay-as-you-go
Required contribution rate - plan members	N/A
Annual required contribution	\$ 12,599
Interest on net OPEB obligation	987
Adjustment to annual required contribution	<u>(1,346)</u>
Annual OPEB cost	12,240
Estimated net contributions made	<u>(3,371)</u>
Increase in net OPEB obligation	8,869
Net OPEB obligation October 1, 2015	<u>24,675</u>
Net OPEB obligation September 30, 2016	<u><u>\$ 33,544</u></u>

Trend Information

<u>Three-Year Trend Information</u>			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/14	\$ 7,348	35.5%	\$ 19,987
09/30/15	\$ 7,561	38.0%	\$ 24,675
09/30/16	\$ 12,240	27.5%	\$ 33,544

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status

The funded status of the plan as of most recent actuarial valuation date was as follows:

Actuarial valuation date	October 1, 2015
Actuarial accrued liability	\$ 55,136
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 55,136
Funded ratio	0.0%
Covered payroll	\$ 1,582,527
UAAL as a percentage of covered payroll	3.5%

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively. The Town is required to have an actuarial valuation every three years. The next valuation is scheduled for October 1, 2018.

Actuarial Methods and Assumptions

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

Actuarial valuation date	October 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Amortization period	30 year closed period
Asset valuation method	Unfunded
Actual assumptions:	
Discount rate	4.0%
Healthcare cost trend	8.0% in 2016, 8.75% in 2017, then decreasing to 4.0% in 2073

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2016

NOTE 13 – OPERATING LEASE

In June 2012, the Town entered into an operating lease for a copier for use in Town Hall. The lease is for a term of 60 months and requires minimum monthly payments of \$254 that commenced in August 2012. For the year ended September 30, 2016, the Town made payments of \$3,052 pursuant to the lease.

The following is a schedule of the Town's required future minimum lease payments under the agreement.

<u>Year Ended</u> <u>September 30</u>	<u>Minimum</u> <u>Lease</u> <u>Payments</u>
2017	<u><u>\$ 2,543</u></u>

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2016

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 4,282,715	\$ 4,282,715	\$ 4,264,363	\$ (18,352)
Utility service taxes	388,000	388,000	411,170	23,170
Gasoline taxes	52,760	52,760	55,379	2,619
Sales taxes	145,000	145,000	141,383	(3,617)
Local business tax	2,000	2,000	2,194	194
Electric franchise fee	168,000	168,000	160,962	(7,038)
State shared revenues	43,850	43,850	44,236	386
Local shared revenues	34,500	34,500	21,921	(12,579)
Licenses and permits	223,150	223,150	429,599	206,449
Special assessments			22,733	22,733
Fines and forfeitures	13,400	13,400	40,386	26,986
Charges for services	594,145	594,145	590,501	(3,644)
Interest	22,000	22,000	28,968	6,968
Decrease in fair value			(1,469)	(1,469)
Grants	1,000	1,000		(1,000)
Contributions			27,230	27,230
Miscellaneous	12,250	12,250	1,863	(10,387)
Total revenues	<u>5,982,770</u>	<u>5,982,770</u>	<u>6,241,419</u>	<u>258,649</u>
Expenditures				
Town commission	25,509	25,509	22,742	2,767
Town manager	174,242	174,241	169,430	4,811
Town clerk/finance	342,468	355,469	316,710	38,759
Legal	129,918	129,918	100,187	29,731
Appointed boards	6,100	6,100	1,885	4,215
General government	966,155	966,155	942,898	23,257
Public safety	3,486,279	3,486,279	3,150,988	335,291
Building and zoning	143,500	143,500	180,957	(37,457)
Solid waste	250,000	250,000	243,147	6,853
Environmental	268,300	268,300	280,014	(11,714)
Public works	255,949	255,949	231,395	24,554
Contingency	50,000	37,000	7,249	29,751
Total expenditures	<u>6,098,420</u>	<u>6,098,420</u>	<u>5,647,602</u>	<u>450,818</u>
Excess (deficiency) of revenues over (under) expenditures	(115,650)	(115,650)	593,817	709,467
Other financing sources (uses)				
Proceeds from sale of capital assets	9,000	9,000	8,574	(426)
Transfers out	(180,000)	(180,000)	(180,000)	
Total other financing sources (uses)	<u>(171,000)</u>	<u>(171,000)</u>	<u>(171,426)</u>	<u>(426)</u>
Net change in fund balances	<u>\$ (286,650)</u>	<u>\$ (286,650)</u>	422,391	<u>\$ 709,041</u>
Fund balance, beginning of year			<u>3,924,959</u>	
Fund balance, end of year			<u>\$ 4,347,350</u>	

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2016

Note 1 - Basis of Accounting

A budgetary comparison schedule is presented for the General Fund, as required by generally accepted accounting principles. The budgetary process is described in Note 2 to the financial statements on page 27. Budgets are adopted on a basis consistent with generally accepted accounting principles.

Note 2 - Stewardship, Compliance, and Accountability

Formal budgetary integration is employed within the accounting system as a management control device. Appropriations are legally controlled at the departmental level, and expenditures may not legally exceed budgeted appropriations at that level. For the year ended September 30, 2016, the following departments had an excess of expenditures over appropriations.

Building and zoning	\$ 37,457
Environmental	\$ 11,714

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Funding Progress
Other Postemployment Benefits
For the Fiscal Year Year Ended September 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age(1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2009	\$	\$ 29,461	\$ 29,461	0.0%	\$ 1,515,282	1.9%
10/1/2012	\$	\$ 37,093	\$ 37,093	0.0%	\$ 1,457,691	2.5%
10/1/2015	\$	\$ 55,136	\$ 55,136	0.0%	\$ 1,582,527	3.5%

The schedule of funding progress presented above will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Town implemented GASB 45 during the fiscal year ended September 30, 2010, and elected to apply the statement prospectively. Consequently there are no disclosures for prior years. The Town is required to have an actuarial valuation every three years.

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Employer Contributions
Florida Retirement System
Pension Plan
Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required FRS contribution	\$ 156,275	\$ 171,110	\$ 196,937
FRS contributions in relation to the contractually required contribution	<u>156,275</u>	<u>171,110</u>	<u>196,937</u>
FRS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,221,158	\$ 1,359,472	\$ 1,581,927
FRS contributions as a percentage of covered payroll	12.80%	12.59%	12.45%

This schedule is intended to present data for 10 years. For years prior to 2014 data are unavailable. Additional years will be presented as they become available.

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System
Pension Plan
Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Proportion of the FRS net pension liability	0.007134472%	0.007018222%	0.008331117%
Proportionate share of the FRS net pension liability	\$ 435,308	\$ 906,497	\$ 2,103,614
Town's covered payroll	\$ 1,196,497	\$ 1,307,878	\$ 1,516,677
Town's proportionate share of the FRS net pension liability as a percentage of covered payroll	36.38%	69.31%	138.70%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	92.00%	84.88%

This schedule is intended to present data for 10 years. For years prior to 2014 data are unavailable. Additional years will be presented as they become available. The amounts presented for each fiscal year were determined as of the June 30 measurement date. The Plan's fiduciary net position as a percentage of the total pension liability is published in the Plan's Comprehensive Annual Financial Report. The discount rate decreased from 7.65% in 2015 to 7.60% in 2016.

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Employer Contributions
Florida Retirement System
Retiree Health Insurance Subsidy Program
Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required HIS contribution	\$ 15,829	\$ 19,816	\$ 27,780
HIS contributions in relation to the contractually required contribution	<u>15,829</u>	<u>19,816</u>	<u>27,780</u>
HIS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,508,066	\$ 1,564,087	\$ 1,786,534
HIS contributions as a percentage of covered-employee payroll	1.05%	1.27%	1.55%

This schedule is intended to present data for 10 years. For years prior to 2014 data are unavailable. Additional years will be presented as they become available.

TOWN OF OCEAN RIDGE, FLORIDA
Required Supplementary Information (RSI)
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System
Retiree Health Insurance Subsidy Program
Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Proportion of the HIS net pension liability	0.004620836%	0.004726211%	0.005174263%
Proportionate share of the HIS net pension liability	\$ 692,890	\$ 481,999	\$ 603,039
Town's covered payroll	\$ 1,476,131	\$ 1,539,701	\$ 1,704,977
Town's proportionate share of the HIS net pension liability as a percentage of it covered payroll	46.94%	31.30%	35.37%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	0.50%	0.97%

This schedule is intended to present data for 10 years. For years prior to 2014 data are unavailable. Additional years will be presented as they become available. The amounts presented for each fiscal year were determined as of the June 30 measurement date. The Plan's fiduciary net position as a percentage of the total pension liability is published in the Plan's Comprehensive Annual Financial Report. The discount rate decreased from 4.29% in 2014 to 3.80% in 2015 to 2.85% in 2016.



NOWLEN, HOLT & MINER, P.A.

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

The Honorable Mayor and Members of the Town Commission
Town of Ocean Ridge, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Town of Ocean Ridge, Florida, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Ocean Ridge's basic financial statements and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
June 30, 2017



NOWLEN, HOLT & MINER, P.A.

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MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

The Honorable Mayor and Members of the Town Commission
Town of Ocean Ridge, Florida

Report on the Financial Statements

We have audited the financial statements of the Town of Ocean Ridge, Florida, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 30, 2017.

Auditor's Responsibility

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

Other Reports

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.5550, Rules of the Auditor General. Disclosures in those reports, which are dated June 30, 2017, 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 we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the prior year that required corrective actions.

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 this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Town of Ocean Ridge, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Ocean Ridge, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Ocean Ridge, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was done as of the fiscal year end. The results of our procedures did not disclose any matters that are required to be reported.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the Town of Ocean Ridge, Florida for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that the two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes.

Based on the application of criteria in publications cited in Section 10.553, Rules of the Auditor General, there are no special district component units of the Town of Ocean Ridge, Florida.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we noted the following items:

Finding 2016-1

Condition: As indicated in Note 2 to the Budgetary Required Supplementary Information, certain departments in the General Fund had expenditures in excess of appropriations.

Criteria: Florida Statutes prohibit expenditures in excess of appropriations.

Effect: Noncompliance with budgetary requirements.

Recommendation: We recommend that the Town adopt budget amendments as necessary to eliminate expenditures in excess of appropriations.

Management Response: We will continue to monitor the budget monthly to control expenditures and make necessary budget amendments between budget line items as necessary.

Finding 2016-2

Condition: We noted that the Town Manager reviews and approves all expenditures. However, in certain instances, the review and approval was not documented.

Criteria: Performance of internal control procedures should be documented.

Effect: Failure to document internal control procedures increases the risk of unauthorized payments.

Recommendation: We recommend that management initial all invoices to indicate review and approval of the payment.

Management Response: We believe these were only isolated cases. In the future, the Town Administration will make sure that all invoices are initialed to indicate the invoices have been reviewed and approved for payment.

Finding 2016-3

Condition: We noted that the Town's accounting software is a legacy product and has significant shortcomings. The software is not user friendly and restricts the Town's ability to provide timely financial information. It is also difficult to perform bank reconciliations with the software.

Criteria: Financial information should be timely to facilitate the decision making process.

Effect: Timely financial information is not available.

Recommendation: We recommend that Town perform a review of the current accounting software and consider updating or replacing the software.

Management Response: We are aware of certain shortcomings of the current accounting software. The Town's Administration is in the process of evaluating the needs of the Town to determine the appropriate course of action in resolving the issues with the current accounting software.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Single Audits

The Town expended less than \$750,000 of federal awards and less than \$750,000 of state financial assistance for the year ended September 30, 2016, and was not required to have a federal single audit or a state single audit.

Response to Management Letter

The Town of Ocean Ridge, Florida's responses to the findings identified in our audit are presented above. The Town of Ocean Ridge, Florida's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Letter

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and state awarding agencies, pass-through entities, management of the Town of Ocean Ridge, and members of the Town Commission, and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
June 30, 2017



NOWLEN, HOLT & MINER, P.A.

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

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The Honorable Mayor and Members of the Town Commission
Town of Ocean Ridge, Florida

We have examined the Town of Ocean Ridge, Florida’s compliance with Section 218.415, Florida Statutes during the year ended September 30, 2016. Management of the Town of Ocean Ridge, Florida is responsible for the Town of Ocean Ridge, Florida’s compliance with the specified requirements. Our responsibility is to express an opinion on the Town of Ocean Ridge, Florida’s compliance with the specified requirements based on our examination.

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

Our examination does not provide a legal determination on the Town of Ocean Ridge, Florida’s compliance with the specified requirements.

In our opinion, the Town of Ocean Ridge, Florida complied, in all material respects, with Section 218.415, Florida Statutes for the year ended September 30, 2016.

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

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
June 30, 2017