



# TOWN OF MONTVERDE, FLORIDA

## FINANCIAL REPORT

Year Ended September 30, 2016

## **INTRODUCTORY SECTION**

TOWN OF MONTVERDE, FLORIDA

**FINANCIAL REPORT**  
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For the Year Ended September 30, 2016

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TOWN OF MONTVERDE, FLORIDA

**LIST OF PRINCIPAL OFFICIALS**

As of September 30, 2016

**MAYOR**

Joe Wynkoop

**TOWN COUNCIL**

Jim Peacock

Council President

Jim Ley

Council Vice President

Billy Bates

Council Member

Glenn Burns

Council Member

Judy Smith

Council Member

**TOWN CLERK**

Graham Wells

**FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Town Council  
*Town of Montverde, Florida*

**Report on the Financial Statements**

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

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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, the business-type activities, and each major fund of Town of Montverde, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and fire special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**MCDIRMIT DAVIS & COMPANY, LLC**

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and pension plan disclosures on page 3 through 12, and 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2017 on our consideration of *Town of Montverde's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Town of Montverde's* internal control over financial reporting and compliance.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
June 20, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *Town of Montverde, Florida* we offer readers of the *Town of Montverde's* financial statements this narrative overview and analysis of the financial activities of the *Town of Montverde* for the fiscal year ended September 30, 2016.

### Financial Highlights

- The assets and deferred outflows of the *Town of Montverde* exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$5,234,721 (net position). Of this amount, \$1,425,795 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$95,661.
- As of the close of the current fiscal year, the *Town of Montverde's* governmental funds reported combined ending fund balances of \$1,543,994, an increase of \$236,104 in comparison with the prior year. Approximately 23% of this total amount, \$362,260, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$362,260, or 46% of total general fund expenditures.

### Overview of the Financial Statements

The financial statements focus on both the Town as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government) and enhance the Town's accountability.

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

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the *Town of Montverde's* financial position, in a manner similar to a private-sector business. They include a *Statement of Net Position* and a *Statement of Activities*.

The *Statement of Net Position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Both of the government-wide financial statements distinguish functions of the *Town of Montverde* that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the *Town of Montverde* include general government, public safety, physical environment, transportation, and culture and recreation services. The business-type activities of the *Town of Montverde* include the Water Utility.

The government-wide financial statements include only the *Town of Montverde* itself (known as the *primary government*).

The government-wide financial statements can be found on pages 11 - 12 of this report.

### Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The *Town of Montverde*, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the *Town of Montverde* can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** - *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The *Town of Montverde* maintains two individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Fire Special Revenue Fund which are considered to be major funds.

The *Town of Montverde* adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for the General Fund, and the Fire Special Revenue Fund to demonstrate compliance with this budget at pages 16 - 17.

The basic governmental fund financial statements can be found on pages 13 - 15 of this report.

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED**

**Proprietary Funds** - Town of Montverde maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Montverde uses an enterprise fund to account for the Water Utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide more detailed information for the Water Utility.

The basic proprietary fund financial statements can be found on pages 18 - 20 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 21 - 43 of this report.

**Required Supplementary Information (RSI)** - RSI can be found on page 44 - 45 of this report.

**Government-Wide Financial Analysis**

**Statement of Net Position** - As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town of Montverde, assets exceeded liabilities by \$5,234,721 at the close of the most recent fiscal year. The following table reflects the condensed statement of net position for the current and prior year. For more detail see the Statement of Net Position on page 11.

*Town of Montverde*  
Statement of Net Position

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Assets:</b>						
Current and other assets	\$ 1,584,273	\$ 1,361,334	\$ 480,874	\$ 441,919	\$ 2,065,147	\$ 1,803,253
Capital Assets	2,386,945	2,499,903	1,265,247	1,319,776	3,652,192	3,819,679
Total Assets	<u>3,971,218</u>	<u>3,861,237</u>	<u>1,746,121</u>	<u>1,761,695</u>	<u>5,717,339</u>	<u>5,622,932</u>
<b>Deferred Outflows</b>	<u>32,024</u>	<u>13,988</u>	<u>34,518</u>	<u>16,422</u>	<u>66,542</u>	<u>30,410</u>
<b>Liabilities:</b>						
Long term liabilities	89,411	58,649	96,378	68,850	185,789	127,499
Other liabilities	40,279	53,445	321,299	320,127	361,578	373,572
Total Liabilities	<u>129,690</u>	<u>112,094</u>	<u>417,677</u>	<u>388,977</u>	<u>547,367</u>	<u>501,071</u>
<b>Deferred Inflows</b>	<u>863</u>	<u>6,078</u>	<u>930</u>	<u>7,133</u>	<u>1,793</u>	<u>13,211</u>
<b>Net Position:</b>						
Net investment in capital assets	2,386,945	2,499,903	1,265,247	1,319,776	3,652,192	3,819,679
Restricted	156,734	183,565	-	-	156,734	183,565
Unrestricted	1,329,010	1,073,585	96,785	62,231	1,425,795	1,135,816
Total Net Position	<u>\$ 3,872,689</u>	<u>\$ 3,757,053</u>	<u>\$ 1,362,032</u>	<u>\$ 1,382,007</u>	<u>\$ 5,234,721</u>	<u>\$ 5,139,060</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

\$3,652,192 (70%) of the Town's net position reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The Town has no long term debt.

Net position that are subject to external restrictions as to how they may be used total \$156,734 (3%). The remaining balance of *unrestricted net position* (\$1,425,795 or 27%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town's net position increased by \$95,661 during the current fiscal year. The following table reflects the condensed Statement of Activities for the current year. For more detail see the Statement of Activities on page 12.

*Town of Montverde*  
Changes in Net Position

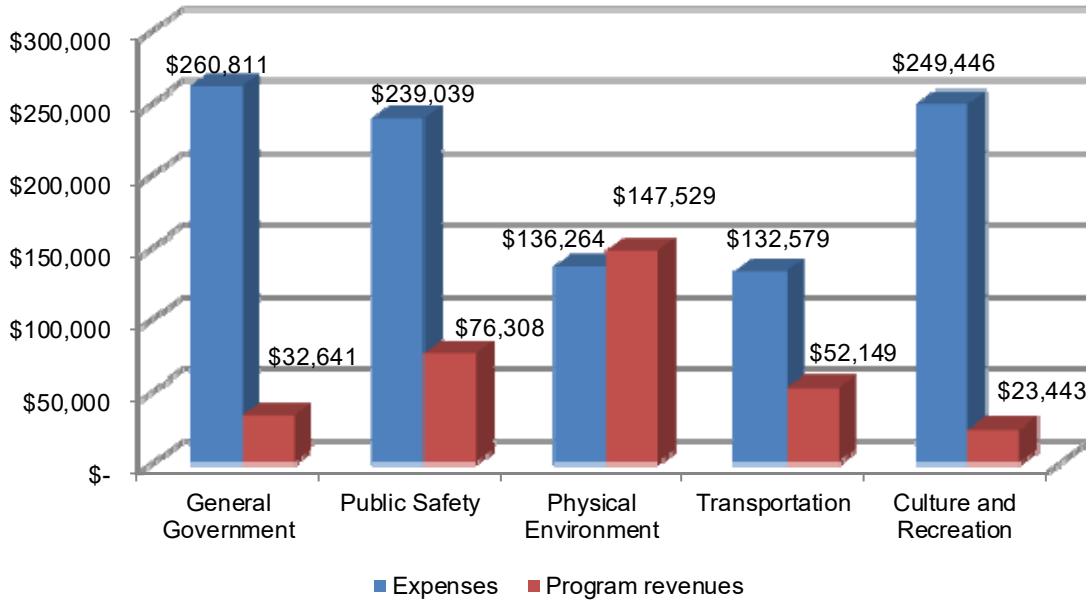
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>						
Program revenues -						
Charges for services	\$ 279,921	\$ 179,055	\$ 298,711	\$ 289,170	\$ 578,632	\$ 468,225
Operating grants and contributions	52,149	38,766	-	-	52,149	38,766
Capital grants and contributions	-	-	-	22,660	-	22,660
General revenues -						
Property taxes	220,031	216,108	-	-	220,031	216,108
Franchise and utility Taxes	224,298	195,086	-	-	224,298	195,086
Intergovernmental	293,074	295,221	-	-	293,074	295,221
Investment income and miscellaneous	64,302	57,461	1,578	8,525	65,880	65,986
Total revenues	<u>1,133,775</u>	<u>981,697</u>	<u>300,289</u>	<u>320,355</u>	<u>1,434,064</u>	<u>1,302,052</u>
<b>Expenses:</b>						
General government	260,811	336,721	-	-	260,811	336,721
Public safety	239,039	225,814	-	-	239,039	225,814
Physical environment	136,264	113,127	-	-	136,264	113,127
Transportation	132,579	240,241	-	-	132,579	240,241
Culture and recreation	249,446	126,590	-	-	249,446	126,590
Water	-	-	320,264	334,689	320,264	334,689
Total expenses	<u>1,018,139</u>	<u>1,042,493</u>	<u>320,264</u>	<u>334,689</u>	<u>1,338,403</u>	<u>1,377,182</u>
<b>Increase (Decrease) in Net Position</b>	115,636	(60,796)	(19,975)	(14,334)	95,661	(75,130)
<b>Net Position - October 1</b>	<u>3,757,053</u>	<u>3,817,849</u>	<u>1,382,007</u>	<u>1,396,341</u>	<u>5,139,060</u>	<u>5,214,190</u>
<b>Net Position - September 30</b>	<u>\$ 3,872,689</u>	<u>\$ 3,757,053</u>	<u>\$ 1,362,032</u>	<u>\$ 1,382,007</u>	<u>\$ 5,234,721</u>	<u>\$ 5,139,060</u>

**Governmental Activities** - Governmental activities increased the *Town of Montverde's* net position by \$115,636. This increase was primarily due to no revenues received in 2015 for the fire assessment due to the one year lag in transitioning from direct billing of utility customers to special assessment billing on the property tax bill.

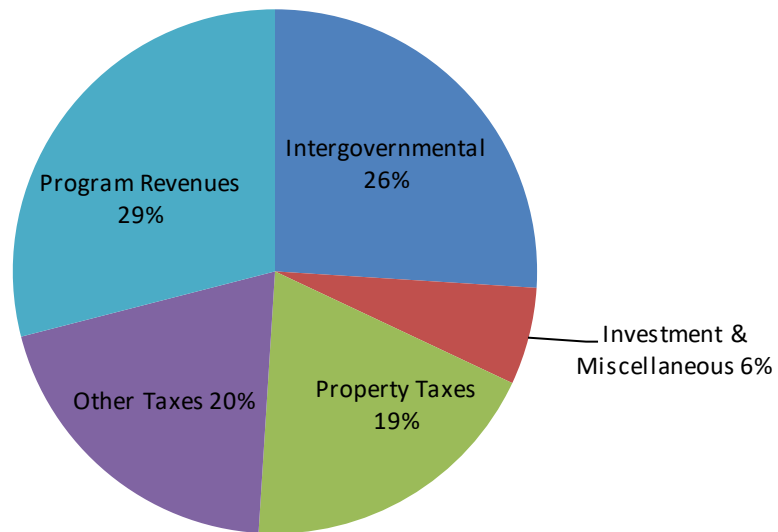
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Business-Type Activities** - Business-type activities decreased the *Town of Montverde's* net position by \$19,975 which is a comparable result to the prior year.

**Expenses and Program Revenues - Governmental Activities**

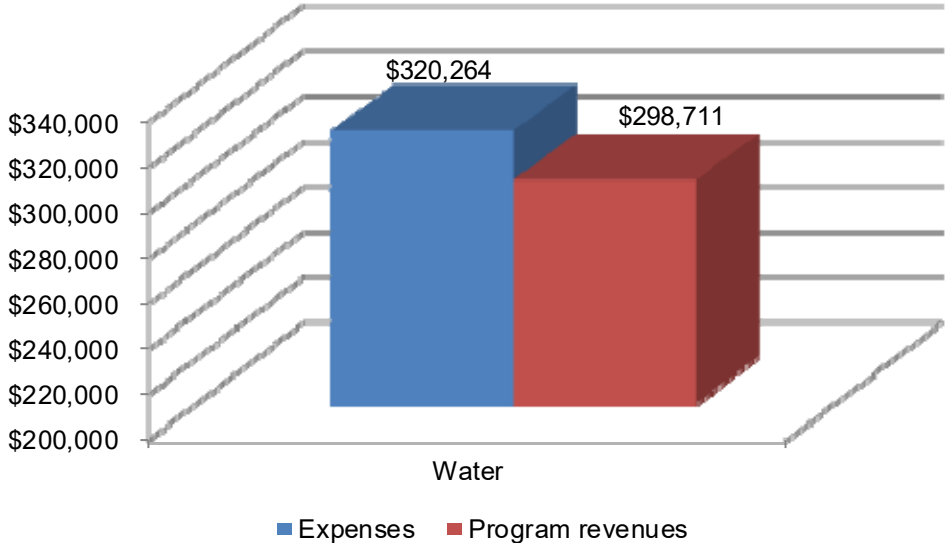


**Revenue by Source - Governmental Activities**

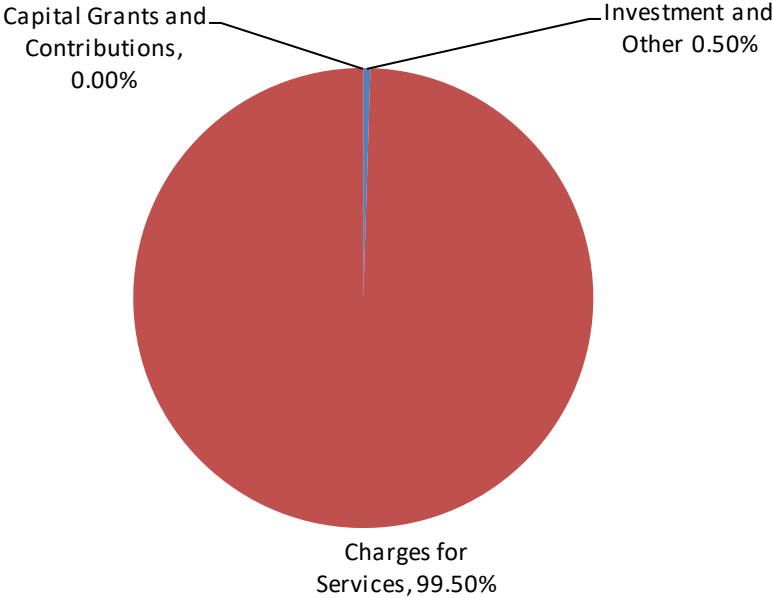


**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Expenses and Program Revenues - Business-Type Activities**



**Revenue by Source - Business-Type Activities**



## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### **Financial Analysis of the Government's Funds**

As noted earlier, the *Town of Montverde* uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Governmental Funds** - The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the *Town of Montverde's* financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the *Town of Montverde's* governmental funds reported combined ending fund balances of \$1,543,994, an increase of \$236,104 in comparison with the prior year. Approximately 23% or \$362,260 of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted or assigned to indicate that it is 1) restricted for particular purposes (\$156,734), or 2) assigned for particular purposes (\$1,025,000).

The general fund is the chief operating fund of the *Town of Montverde*. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$362,260 while total fund balance was \$1,521,309. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represent 40% and 194% respectively, of total General Fund expenditures and transfers out.

The fund balance of the general fund increased by \$213,419 during the current fiscal year. This can primarily be attributed to higher than expected franchise and utility revenues as well as planned capital projects that were not started before year end.

In the current fiscal year, the Town established the Fire Fund to account for the receipts and uses of the fire special assessment. All of the activity of the volunteer fire department is reported in the Fire Fund, and the ending fund balance at September 30, 2016 was \$22,685 which is restricted for the use of the volunteer fire department.

**Proprietary Funds** - The *Town Montverde's* proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at the year-end amounted to \$96,785. The total decrease in net position for these funds was \$19,975. Other factors concerning the finances of these funds have already been addressed in the discussion of the *Town of Montverde's* business-type activities.

### **General Fund Budgetary Highlights**

During the year, actual revenues were \$113,088 more than budgeted revenues and actual expenditures were \$77,096 less than budgeted expenditures. The difference between the original General Fund budget and the final amended General Fund budget resulted in \$13,000 more in appropriations from fund balance. The increase in expenditures was for additional services needed for Town parks.

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED**

**Capital Asset and Debt Administration**

**Capital Assets** - The *Town of Montverde*’s investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$3,652,192 (net of accumulated depreciation), for a decrease of \$167,487 from the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment and infrastructure. The total decrease in the Town’s investment in capital assets for the current fiscal year was 4.4% (a 4.5% decrease for governmental activities, and 4.1% decrease for business-type activities).

*Town of Montverde*  
Capital Assets  
(Net of Depreciation)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Land	\$ 490,804	\$ 449,483	\$ 300,963	\$ 300,963	\$ 791,767	\$ 750,446
Buildings	679,708	704,154	-	-	679,708	704,154
Improvements	597,871	662,726	-	-	597,871	662,726
Infrastructure	520,696	558,156	881,695	929,092	1,402,391	1,487,248
Equipment	97,866	125,384	82,589	89,721	180,455	215,105
Total	<u>\$ 2,386,945</u>	<u>\$ 2,499,903</u>	<u>\$ 1,265,247</u>	<u>\$ 1,319,776</u>	<u>\$ 3,652,192</u>	<u>\$ 3,819,679</u>

Additional information on the *Town of Montverde*’s capital assets can be found in Note 5 of this report.

**Long-Term Debt** - The Town has no long-term debt outstanding at September 30, 2016.

**Next Year’s Budget and Rates**

During the current fiscal year, the unassigned fund balance in the General Fund totaled \$362,260. None of the unassigned fund balance is budgeted for appropriations in the 2017 budget. The Town is expecting to incur enough revenues in 2017 to cover expenditures to mitigate any need to draw on 2016 unassigned fund balance.

**Requests for Information**

This financial report is designed to provide a general overview of the *Town of Montverde*’s finances for all those with an interest in the government’s finances. Questions concerning any of the information should be addressed to the office of the Town Clerk, *Town of Montverde*, 17404 6th Street, Montverde, FL 34756.

## **BASIC FINANCIAL STATEMENTS**



## TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF NET POSITION**

September 30, 2016

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 992,002	\$ 140,998	\$ 1,133,000
Investments	538,255	-	538,255
Receivables, net	30,820	31,625	62,445
Internal balances	4,227	(4,227)	-
Due from other governments	18,969	-	18,969
Restricted cash	-	312,478	312,478
Capital Assets:			
Capital assets not being depreciated	490,804	300,963	791,767
Capital assets, net of accumulated depreciation	1,896,141	964,284	2,860,425
Total assets	<u>3,971,218</u>	<u>1,746,121</u>	<u>5,717,339</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows of pension earnings	<u>32,024</u>	<u>34,518</u>	<u>66,542</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	40,279	6,554	46,833
Deposits payable	-	57,166	57,166
Unearned revenue	-	257,579	257,579
Noncurrent liabilities:			
Net pension liability	<u>89,411</u>	<u>96,378</u>	<u>185,789</u>
Total liabilities	<u>129,690</u>	<u>417,677</u>	<u>547,367</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows of pension earnings	<u>863</u>	<u>930</u>	<u>1,793</u>
<b>NET POSITION:</b>			
Net investment in capital assets	2,386,945	1,265,247	3,652,192
Restricted for:			
Fire	22,685	-	22,685
Historical	3,636	-	3,636
Police	7,216	-	7,216
Infrastructure	111,733	-	111,733
Cemetery	11,464	-	11,464
Unrestricted	<u>1,329,010</u>	<u>96,785</u>	<u>1,425,795</u>
Total net position	<u>\$ 3,872,689</u>	<u>\$ 1,362,032</u>	<u>\$ 5,234,721</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2016

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 260,811	\$ 32,641	\$ -	\$ -	\$ (228,170)	\$ -	\$ (228,170)
Public Safety	239,039	76,308	-	-	(162,731)	-	(162,731)
Physical Environment	136,264	147,529	-	-	11,265	-	11,265
Transportation	132,579	-	52,149	-	(80,430)	-	(80,430)
Culture and Recreation	249,446	23,443	-	-	(226,003)	-	(226,003)
Total governmental activities	<u>1,018,139</u>	<u>279,921</u>	<u>52,149</u>	<u>-</u>	<u>(686,069)</u>	<u>-</u>	<u>(686,069)</u>
Business-type activities:							
Water	<u>320,264</u>	<u>298,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,553)</u>	<u>(21,553)</u>
Total business-type activities	<u>320,264</u>	<u>298,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,553)</u>	<u>(21,553)</u>
Total primary government	<u>\$ 1,338,403</u>	<u>\$ 578,632</u>	<u>\$ 52,149</u>	<u>\$ -</u>	<u>(686,069)</u>	<u>(21,553)</u>	<u>(707,622)</u>
<b>General Revenues:</b>							
					220,031	-	220,031
					224,298	-	224,298
					293,074	-	293,074
					12,150	1,578	13,728
					52,152	-	52,152
Total general revenues					<u>801,705</u>	<u>1,578</u>	<u>803,283</u>
Change in net position					115,636	(19,975)	95,661
Net Position - beginning					<u>3,757,053</u>	<u>1,382,007</u>	<u>5,139,060</u>
Net Position - ending					<u>\$ 3,872,689</u>	<u>\$ 1,362,032</u>	<u>\$ 5,234,721</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2016

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 962,624	\$ 29,378	\$ 992,002
Investments	538,255	-	538,255
Accounts receivable, net	30,820	-	30,820
Due from other funds	4,227	-	4,227
Due from other governments	18,969	-	18,969
	<u>\$ 1,554,895</u>	<u>\$ 29,378</u>	<u>\$ 1,584,273</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 31,220	\$ 6,693	\$ 37,913
Other accrued expenses	2,366	-	2,366
	<u>33,586</u>	<u>6,693</u>	<u>40,279</u>
<b>FUND BALANCES:</b>			
Restricted:			
Fire	-	22,685	22,685
Historical	3,636	-	3,636
Police	7,216	-	7,216
Infrastructure	111,733	-	111,733
Cemetery	11,464	-	11,464
Assigned for capital replacement	1,025,000	-	1,025,000
Unassigned	362,260	-	362,260
	<u>1,521,309</u>	<u>22,685</u>	<u>1,543,994</u>
Total Liabilities and Fund Balances	<u>\$ 1,554,895</u>	<u>\$ 29,378</u>	

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	2,386,945
Deferred inflows and outflows of resources related to pension earnings are not recognized in the governmental funds.	31,161
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(89,411)</u>
Net Position of Governmental Activities	<u>\$ 3,872,689</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2016

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Taxes:			
Property	\$ 220,031	\$ -	\$ 220,031
Franchise and utility	224,298	-	224,298
Fees and fines	1,755	-	1,755
Special assessments	-	74,886	74,886
Intergovernmental	345,223	-	345,223
Charges for services	203,280	-	203,280
Investment earnings	12,150	-	12,150
Miscellaneous	52,152	-	52,152
Total revenues	<u>1,058,889</u>	<u>74,886</u>	<u>1,133,775</u>
<b>EXPENDITURES:</b>			
Current:			
General government	267,490	-	267,490
Public safety	101,856	112,017	213,873
Physical environment	136,264	-	136,264
Transportation	99,879	-	99,879
Culture and recreation	180,165	-	180,165
Total expenditures	<u>785,654</u>	<u>112,017</u>	<u>897,671</u>
Excess (deficiency) of revenues over expenditures	<u>273,235</u>	<u>(37,131)</u>	<u>236,104</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	59,816	59,816
Transfers out	(59,816)	-	(59,816)
Total other financing sources (uses)	(59,816)	59,816	-
Net change in fund balances	213,419	22,685	236,104
Fund balances - beginning	<u>1,307,890</u>	<u>-</u>	<u>1,307,890</u>
Fund balances - ending	<u>\$ 1,521,309</u>	<u>\$ 22,685</u>	<u>\$ 1,543,994</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2016

Net Change in Fund Balances - total governmental funds: \$ 236,104

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$60,032 were less than depreciation of \$172,990 in the current period. (112,958)

Governmental funds report cash contributions to pensions as expenditures because they consume current financial resources. The Statement of Activities reports the change in pension liability and related deferrals as pension expense. This is the amount of the difference between the two amounts. (7,510)

Change in net position of governmental activities \$ 115,636

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
GENERAL FUND**

For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 219,961	\$ 219,961	\$ 220,031	\$ 70
Franchise and utility	165,154	165,154	224,298	59,144
Fees and Fines	3,000	3,000	1,755	(1,245)
Intergovernmental	331,986	331,986	345,223	13,237
Charges for Services	169,500	169,500	203,280	33,780
Investment Earnings	6,000	6,000	12,150	6,150
Miscellaneous	50,200	50,200	52,152	1,952
Total revenues	<u>945,801</u>	<u>945,801</u>	<u>1,058,889</u>	<u>113,088</u>
<b>EXPENDITURES:</b>				
Current:				
General government	285,905	285,905	267,490	18,415
Public safety	97,689	97,689	101,856	(4,167)
Physical environment	135,159	135,159	136,264	(1,105)
Transportation	170,561	170,561	99,879	70,682
Culture and recreation	160,436	173,436	180,165	(6,729)
Total expenditures	<u>849,750</u>	<u>862,750</u>	<u>785,654</u>	<u>77,096</u>
Excess (deficiency) of revenues over expenditures	<u>96,051</u>	<u>83,051</u>	<u>273,235</u>	<u>190,184</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers out	<u>(59,816)</u>	<u>(59,816)</u>	<u>(59,816)</u>	<u>-</u>
Total other financing sources	<u>(59,816)</u>	<u>(59,816)</u>	<u>(59,816)</u>	<u>-</u>
Net change in fund balances	36,235	23,235	213,419	190,184
Fund Balance - beginning	<u>1,307,890</u>	<u>1,307,890</u>	<u>1,307,890</u>	<u>-</u>
Fund Balance - ending	<u>\$ 1,344,125</u>	<u>\$ 1,331,125</u>	<u>\$ 1,521,309</u>	<u>\$ 190,184</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FIRE SPECIAL REVENUE FUND**

For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes:				
Special assessments	\$ 72,063	\$ 72,063	\$ 74,886	\$ 2,823
Total revenues	72,063	72,063	74,886	2,823
<b>EXPENDITURES:</b>				
Current:				
Public safety	131,879	131,879	112,017	19,862
Total expenditures	131,879	131,879	112,017	19,862
Excess (deficiency) of revenues over expenditures	(59,816)	(59,816)	(37,131)	22,685
<b>OTHER FINANCING USES:</b>				
Transfers in	59,816	59,816	59,816	-
Total other financing uses	59,816	59,816	59,816	-
Net change in fund balances	-	-	22,685	22,685
Fund Balance - beginning	-	-	-	-
Fund Balance - ending	\$ -	\$ -	\$ 22,685	\$ 22,685

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**

September 30, 2016

	<u>Water Fund</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 140,998
Accounts receivable, net	31,625
Restricted cash	<u>312,478</u>
Total current assets	<u>485,101</u>
Noncurrent assets:	
Capital assets:	
Land	300,963
Infrastructure	1,749,174
Machinery and equipment	196,075
Less accumulated depreciation	<u>(980,965)</u>
Total noncurrent assets	<u>1,265,247</u>
Total assets	<u>1,750,348</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred outflows of pension earnings	<u>34,518</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	3,893
Accrued liabilities	2,661
Due to other funds	4,227
Customer deposits payable	57,166
Unearned revenue	<u>257,579</u>
Total current liabilities	<u>325,526</u>
Noncurrent Liabilities:	
Net pension liability	<u>96,378</u>
Total noncurrent liabilities	<u>96,378</u>
Total liabilities	<u>421,904</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred inflows of pension earnings	<u>930</u>
<b>NET POSITION:</b>	
Net investment in capital assets	1,265,247
Unrestricted	<u>96,785</u>
Total net position	<u>\$ 1,362,032</u>

The accompanying Notes to Financial Statements are an integral part of this statement.



TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION -  
PROPRIETARY FUND**

For the Year Ended September 30, 2016

	<b><u>Water Fund</u></b>
<b>REVENUES:</b>	
User charges	\$ 298,424
Other revenues	<u>287</u>
Total operating revenues	298,711
<b>OPERATING EXPENSES:</b>	
Salaries and benefits	164,992
Contractual services	27,982
Repairs and maintenance	28,616
Other supplies and expenses	42,449
Depreciation	<u>56,225</u>
Total operating expenses	<u>320,264</u>
Operating income (loss)	<u>(21,553)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Interest and investment income	<u>1,578</u>
Total nonoperating revenue (expenses)	<u>1,578</u>
Change in net position	(19,975)
Total Net Position - beginning	<u>1,382,007</u>
Total Net Position - ending	<u><u>\$ 1,362,032</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

TOWN OF MONTVERDE, FLORIDA

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

For the Year Ended September 30, 2016

	<u>Water Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 291,468
Payments to suppliers	(101,965)
Payments to employees	(162,957)
	<u>26,546</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Increase (decrease) in due from other funds	4,227
	<u>4,227</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Purchase of capital assets	(1,696)
	<u>(1,696)</u>
<b>Cash Flows from Investing Activities:</b>	
Investment income	1,578
	<u>1,578</u>
<b>Net Increase in Cash and Cash Equivalents</b>	30,655
<b>Cash and Cash Equivalents - beginning</b>	422,821
<b>Cash and Cash Equivalents - ending</b>	<u>\$ 453,476</u>
<b>Classified As:</b>	
Cash and cash equivalents	\$ 140,998
Restricted cash and cash equivalents	312,478
Total	<u>\$ 453,476</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities</b>	
Operating income (loss)	\$ (21,553)
<b>Adjustments Not Affecting Cash:</b>	
Depreciation and amortization	56,225
<b>Change in Assets and Liabilities:</b>	
Decrease (increase) in accounts receivable	(6,766)
Decrease (increase) deferred outflows	(18,096)
Increase (decrease) in accounts payable	(2,918)
Increase (decrease) in accrued liabilities	(1,194)
Increase (decrease) in customer deposits	(1,962)
Increase (decrease) in unearned revenues	1,485
Increase (decrease) in net pension liability	27,528
Increase (decrease) in deferred inflows	(6,203)
Total adjustments	<u>48,099</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 26,546</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies:**

**A. Reporting Entity**

The *Town of Montverde*, Florida ("the Town") is a political subdivision of the state of Florida located in Lake County. The *Town of Montverde* was originally incorporated under the laws of the State of Florida on May 18, 1925. The legislative branch of the Town is composed of a Mayor and a five (5) member elected Council. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Town Mayor. The Town provides the following services authorized by its charter: public safety (law enforcement and fire control), roads and streets, culture and recreation, planning and zoning, and water utility services.

**B. 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 nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The government reports the following funds:

**Major Governmental Funds**

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Special Revenue Fund* is a special revenue fund established to account for the proceeds and uses of the fire special assessment, which is used for the operations of the volunteer fire department.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):***

**Major Proprietary Funds**

*Water Fund* is used to account for the operations of the Town's water system, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on an ongoing basis are financed primarily through user charges.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the Town's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's water fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance:***

**1. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the Town are reported at fair value and are categorized within the fair value hierarchy established in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The Town's investments consist of investments authorized per Section 218.415, Florida Statutes.

**2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. The County bills and collects property taxes and remits them to the Town. Town property tax revenues are recognized when levied to the extent that they result in current receivables.

All property is reassessed according to its fair value on the lien date, or January 1 of each year. Taxes are levied on October 1 of each year. 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. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. On or around May 31 following the tax year, certificates are sold for all delinquent taxes on real property.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance  
(Continued):***

**3. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

**4. Restricted Assets**

The use of certain assets of the Water fund may be restricted by specific provisions of town ordinances and/or agreements with various parties. Assets so designated are identified as restricted assets on the balance sheet.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town's capitalization policy as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized for the year ended September 30, 2016.



**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance (Continued):***

**5. Capital Assets (Continued):**

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

<u>Assets</u>	<u>Years</u>
Buildings	30-40
Improvements	10-20
Infrastructure	50
Machinery and equipment	3-15
Water system	20-50

**6. Compensated Absences**

The Town provides paid time off (PTO) for its employees. Since the Town's policy is to only pay PTO when it is used, there are no amounts accrued on the financial statements. Unused PTO is not allowed to be carried forward into subsequent fiscal years.

**7. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The Town has no long-term debt outstanding at September 30, 2016

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance  
(Continued):***

**8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category, which is the deferred outflows of pension earnings.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has one item that qualifies for reporting in this category, which is the deferred inflows of pension earnings.

**9. Net Position Flow Assumptions**

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**10. Fund Balance Flow Assumptions**

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 1 - Summary of Significant Accounting Policies (Continued):**

***D. Assets, Liabilities, Deferred Outflows/Inflows and Net Position/Fund Balance  
(Continued):***

**11. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the town's highest level of decision-making authority. The Council is the highest level of decision-making authority for the town that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the town for specific purposes but do not meet the criteria to be classified as committed. The council has maintained authority to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**12. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities as of the financial statement date and the reported amounts of revenues and expenses or expenditures during the reporting period. Actual results could differ from those estimates.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 2 - Stewardship, Compliance, and Accountability**

**A. *Budgetary Information***

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

- (1) Prior to the end of the fiscal year, the Town Clerk submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- (2) The general summary of the budget and notice of public hearing is published in the local newspaper. Public hearings are conducted to obtain taxpayer comments. Prior to October 1, budgets are legally enacted through passage of an ordinance or resolution.
- (3) Any transfer of budgeted amounts within and between divisions and departments must be approved by a majority vote of the Town Council and any revisions that alter the total appropriations of any fund must be approved by the a majority vote of the Town Council. The level of classification detail at which expenditures may not legally exceed appropriations is the department level.
- (4) Appropriations lapse at the close of the fiscal year to the extent they have not been expended.
- (5) Budgets are adopted for the general fund and special revenue funds on a basis consistent with accounting principles generally accepted in the United States of America. Budgets are also adopted for the enterprise funds; however, this data is not presented under generally accepted accounting principles.
- (6) The Town Council, by ordinance or resolution, may make supplemental appropriations in excess of those originally estimated for the year up to the amount of available revenues. Budgeted amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions.

**B. *Expenditures in Excess of Appropriations***

The General Fund contained expenditures in excess of appropriations in the public safety, physical environment, and culture and recreation departments for the year ended September 30, 2016.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 3 - Deposits and Investments:**

**Deposits**

At year-end, the carrying amount of the Town's deposits was \$1,445,478 and the bank balance was \$1,466,364.

All bank deposits were covered by Federal Depository Insurance or by collateral held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. Florida Statutes provide for collateral pooling by banks and savings and loans. This limits local government deposits to "authorized depositories".

**Investments**

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value is 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. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Town uses a market approach in measuring fair value that uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities.

Assets or liabilities are classified into one of three levels. Level 1 is the most reliable and is based on quoted price for identical assets, or liabilities, in an active market. Level 2 uses significant other observable inputs when obtaining quoted prices for identical or similar assets, or liabilities, in markets that are not active. Level 3 is the least reliable, and uses significant unobservable inputs that uses the best information available under the circumstances, which includes the Town's own data in measuring unobservable inputs. The Town had no investments as defined by GASB Statement No. 72 as of September 30, 2016.

In accordance with GASB Statement No. 31, the Town's investments in certificates of deposit are carried at amortized cost, which approximates fair value. The Town's investments in certificates of deposit totaled \$538,255 at September 30, 2016.

The Town's investment policies are governed by Florida Statutes, which allow the following investments:

- (a) Florida Local Government Surplus Funds Trust Fund Investment Pool (SBA LGIP)
- (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 deposit or savings accounts in qualified public depositories
- (d) Direct obligations of the U.S. Treasury

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 3 - Deposits and Investments (Continued):**

**Investments (Continued):**

The Town does not have an investment policy that addresses credit risk, concentration of credit risk, custodial credit risk, or interest rate risk. However, all deposits are potentially subject to custodial credit risk. The Town policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposit Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2016, all of the Town's bank deposits were in qualified public depositories.

**Note 4 - Receivables:**

Receivables as of September 30, 2016 for the general fund total \$30,820 and represent garbage service fees and franchise and utility taxes receivable. Water fund receivables total \$31,625 and represent water service fees receivable. No allowance has been recorded for either amount because uncollectable balances have historically been insignificant.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 5 - Capital Assets:**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 449,483	\$ 41,321	\$ -	\$ 490,804
Total capital assets, not being depreciated	<u>449,483</u>	<u>41,321</u>	<u>-</u>	<u>490,804</u>
Capital assets, being depreciated:				
Buildings	1,018,654	-	-	1,018,654
Improvements	1,075,578	-	-	1,075,578
Infrastructure	1,230,637	-	-	1,230,637
Machinery and equipment	1,255,930	18,711	-	1,274,641
Total capital assets, being depreciated	<u>4,580,799</u>	<u>18,711</u>	<u>-</u>	<u>4,599,510</u>
Less accumulated depreciation for:				
Buildings	(314,500)	(24,446)	-	(338,946)
Improvements	(412,852)	(64,855)	-	(477,707)
Infrastructure	(672,481)	(37,460)	-	(709,941)
Machinery and equipment	(1,130,546)	(46,229)	-	(1,176,775)
Total accumulated depreciation	<u>(2,530,379)</u>	<u>(172,990)</u>	<u>-</u>	<u>(2,703,369)</u>
Total capital assets, being depreciated, net	<u>2,050,420</u>	<u>(154,279)</u>	<u>-</u>	<u>1,896,141</u>
Government activities capital assets, net	<u>\$ 2,499,903</u>	<u>\$ (112,958)</u>	<u>\$ -</u>	<u>\$ 2,386,945</u>

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 5 - Capital Assets (Continued):**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 300,963	\$ -	\$ -	\$ 300,963
Total capital assets, not being depreciated	<u>300,963</u>	<u>-</u>	<u>-</u>	<u>300,963</u>
Capital assets, being depreciated:				
Water system	1,749,174	-	-	1,749,174
Machinery and equipment	194,379	1,696	-	196,075
Total capital assets, being depreciated	<u>1,943,553</u>	<u>1,696</u>	<u>-</u>	<u>1,945,249</u>
Less accumulated depreciation for:				
Water system	(820,082)	(47,397)	-	(867,479)
Machinery and equipment	(104,658)	(8,828)	-	(113,486)
Total accumulated depreciation	<u>(924,740)</u>	<u>(56,225)</u>	<u>-</u>	<u>(980,965)</u>
Total capital assets, being depreciated, net	<u>1,018,813</u>	<u>(54,529)</u>	<u>-</u>	<u>964,284</u>
Business-type activities capital assets, net	<u>\$ 1,319,776</u>	<u>\$ (54,529)</u>	<u>\$ -</u>	<u>\$ 1,265,247</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>	
General government	\$ 36,240
Public safety	32,439
Transportation	30,762
Culture and recreation	73,549
Total Depreciation Expense - governmental activities	<u>\$ 172,990</u>
<b>Business-type Activities:</b>	
Water	\$ 56,225
Total Depreciation Expense - business type activities	<u>\$ 56,225</u>



TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 6 - Long-Term Liabilities:**

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2016 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
Net pension liability	\$ 58,649	\$ 30,762	\$ -	\$ 89,411	\$ -
Governmental activity long-term liabilities	\$ 58,649	\$ 30,762	\$ -	\$ 89,411	\$ -
<b>Business-Type Activities:</b>					
Net pension liability	\$ 68,850	\$ 27,528	\$ -	\$ 96,378	\$ -
Business-type activity long-term liabilities	\$ 68,850	\$ 27,528	\$ -	\$ 96,378	\$ -

**Note 7 - Interfund Receivables, Payables and Transfers:**

The General Fund transferred \$59,816 to the Fire Fund to fund operations in the first year of the Fund's operations. Amounts payable to the General Fund from the Water Fund of \$4,227 relate to disbursements made on behalf of the Water Fund near the end of the fiscal year. Balances are expected to be reimbursed to the General Fund in the subsequent year.

**Note 8 - Florida Retirement System:**

Plan Description Town employees participate in the Florida Retirement System ("System"), a cost-sharing multiple employer public employee retirement plan administered by the State of Florida Department of Management Services, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions.

Early retirement benefits may also be provided; however there is a reduction in benefits for each year prior to normal retirement. Generally, membership is compulsory for all full-time and part-time employees. There is a 3% requirement for employees to contribute to FRS effective July 1, 2011.

The 2007 Florida Legislature continued the uniform contribution rate system under which participating employers make uniform contributions to support the FRS Pension Plan and the Retiree Health Insurance Subsidy (HIS Plan). Under Section 121.405, Florida Statutes, FRS also provides a defined contribution plan (Investment Plan) alternative to the FRS defined benefit pension plan. Employers contribute based upon blended rates determined as a percentage of the total payroll for each class or subclass of FRS membership, regardless of which retirement plan individuals elect.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

The State of Florida issues a report that includes financial statements and required supplementary information for FRS. That report may be obtained by writing to Florida Retirement System, Tallahassee, Florida 32399-1560.

Funding Policy: The FRS has ten (10) classes of membership. Only one (1) class is applicable to the Town's eligible employees. This class, with descriptions and contribution rates in effect during the period ended September 30, 2016 are as follows:

Regular Class Members not qualifying for other classes (10.52% [includes 3% employee contribution] from July 1, 2016 through September 30, 2016 and 10.37% [includes 3% employee contribution] from October 1, 2015 through June 30, 2016).

These employer contribution rates include 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively.

**Pension Plan (FRS)**

Plan Description - The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program ("DROP") for eligible employees.

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three 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 three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**Pension Plan (FRS) (Continued)**

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers' class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

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 Town's contributions to the Pension Plan totaled \$10,051 for the fiscal year ended September 30, 2016.

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 \$96,922 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 2016 fiscal year contributions relative to the 2015 fiscal year contributions of all participating members. At June 30, 2016, the Town's proportionate share was .00038 percent, which was an increase (decrease) of (.00001) percent from its proportionate share measured as of June 30, 2015.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**Pension Plan (FRS) (Continued)**

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$6,730. In addition the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 7,421	\$ 902
Change of Assumptions	5,863	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	25,053	-
Changes in Proportion and Differences Between Pension Plan Contributions and Proportionate Share of Contributions	8,081	689
Pension Plan Contributions Subsequent to the Measurement Date	3,007	-
	\$ 49,425	\$ 1,591

The deferred outflows of resources related to the Pension Plan, totaling \$3,007 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:

<b>Year Ended September 30,</b>	
2017	\$ 7,159
2018	7,159
2019	16,926
2020	11,463
2021	1,691
Thereafter	429
	\$ 44,827

**Actuarial Assumptions** - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.60%
Salary Increases	3.25%, average, including inflation
Investment Rate of Return	7.60%, net of pension plan investment expense, including inflation

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**Pension Plan (FRS) (Continued)**

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

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 Pension Plan investments was 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>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.00%	3.00%	1.70%
Fixed Income	18.00%	4.70%	4.60%	4.60%
Global Equity	53.00%	8.10%	6.80%	17.20%
Real Estate	10.00%	6.40%	5.80%	12.00%
Private Equity	6.00%	11.50%	7.80%	30.00%
Strategic Investments	12.00%	6.10%	5.60%	11.10%
Total	<u>100.00%</u>			
Assumed Inflation - Mean		2.60%		1.90%

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

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.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**Pension Plan (FRS) (Continued)**

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:

	Discount Rate Minus 1% 6.60%	Current Discount Rate 7.60%	Discount Rate Plus 1% 8.60%
Town's Proportionate Share of Net Pension Liability (FRS)	\$ 178,440	\$ 96,922	\$ 29,069

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, 2015, the Town reported a payable in the amount of \$391 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

**HIS Plan**

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.

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**HIS Plan (Continued)**

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 for the period October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.26% and 1.66%, respectively. The Town contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions 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 \$3,802 for the fiscal year ended September 30, 2016.

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 \$88,867 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 2016 fiscal year contributions relative to the 2015 fiscal year contributions of all participating members. At June 30, 2016, the Town's proportionate share was .00076 percent, which was unchanged from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the Town recognized pension expense of \$4,010. In addition the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Description</b>	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 202
Change of Assumptions	13,945	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	45	-
Changes in Proportion and Differences Between Pension Plan Contributions and Proportionate Share of Contributions	2,266	-
Pension Plan Contributions Subsequent to the Measurement Date	861	-
	\$ 17,117	\$ 202

TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**HIS Plan (Continued)**

The deferred outflows of resources related to the HIS Plan, totaling \$861 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:

<u>Year Ended September 30,</u>	
2017	\$ 2,897
2018	2,897
2019	2,888
2020	2,884
2021	2,525
Thereafter	1,963
	<u>\$ 16,054</u>

Actuarial Assumptions - The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Salary Increases	3.25%, average, including inflation
Municipal Bond Rate	2.85% net of pension plan investment expense

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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.



TOWN OF MONTVERDE, FLORIDA

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**HIS Plan (Continued)**

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:

	Discount Rate Minus 1% 1.85%	Current Discount Rate 2.85%	Discount Rate Plus 1% 3.85%
Town's Proportionate Share of Net Pension Liability (FRS)	\$ 101,951	\$ 88,867	\$ 78,008

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.

**Investment Plan**

The SBA administers the defined contribution plan officially titled the FRS Investment Plan. 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. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Senior Management, 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. Allocations to the investment member's accounts during the 2016 fiscal year, as established by Section 121.72, Florida Statutes, are based on a percentage of gross compensation, by class, as follows: Regular class 6.30%, Special Risk Administrative Support class 7.95%, Special Risk class 14.00%, and Senior Management Service class 7.67%.

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

September 30, 2016

**Note 8 - Florida Retirement System (Continued):**

**Investment Plan (Continued)**

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.

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 made no contributions during the year ended September 30, 2016, as no employees had elected to participate.

**Note 9 - Commitments and Contingencies:**

***Litigation*** - The Town is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2016. While the ultimate outcome of the litigation cannot be determined at this time, management believes that any amounts not covered by insurance, if any, resulting from these lawsuits would not materially affect the financial position of the Town.

***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. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage during the past three years.

**REQUIRED SUPPLEMENTARY INFORMATION**

TOWN OF MONTVERDE, FLORIDA

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY - FLORIDA RETIREMENT SYSTEM**

September 30, 2016

Florida Retirement System  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Town's Proportion of the Net Pension Liability	0.00038%	0.00039%
Town's Proportionate Share of the Net Pension Liability	\$ 96,922	\$ 50,328
Town's Covered-employee Payroll	\$ 232,360	\$ 248,515
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	41.71%	20.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.88%	92.00%

\* Not available

Health Insurance Subsidy  
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Town's Proportion of the Net Pension Liability	0.00076%	0.00076%
Town's Proportionate Share of the Net Pension Liability	\$ 88,867	\$ 77,173
Town's Covered-employee Payroll	\$ 232,360	\$ 248,515
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	38.25%	31.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.97%	0.50%

\* Not available

TOWN OF MONTVERDE, FLORIDA

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF NET  
PENSION LIABILITY - FLORIDA RETIREMENT SYSTEM**

September 30, 2016

Florida Retirement System Last 10 Fiscal Years		
	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 10,051	\$ 9,344
Contributions in Relation to the Contractually Required Contributions	<u>10,051</u>	<u>9,344</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Town's Covered Payroll	\$ 232,360	\$ 248,515
Contributions as a Percentage of Covered-employee Payroll	4.33%	3.76%

Health Insurance Subsidy Last 10 Fiscal Years		
	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 3,802	\$ 2,992
Contributions in Relation to the Contractually Required Contributions	<u>3,802</u>	<u>2,992</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Town's Covered Payroll	\$ 232,360	\$ 248,515
Contributions as a Percentage of Covered-employee Payroll	1.64%	1.20%

## **OTHER REPORTS**

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

The Honorable Mayor and Town Council  
*Town of Montverde, Florida*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the *Town of Montverde, Florida*, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 20, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the *Town of Montverde, 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 *Town of Montverde's* internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Appendices A & B to the Management Letter, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803  
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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. We consider the deficiency described in Appendix B to the Management Letter to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether *Town of Montverde'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 result of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Montverde, which are detailed in Appendix C to the Management Letter.

### ***Town of Montverde's Response to Findings***

Town of Montverde's response to the findings identified in our audit are described on pages 57-61. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 20, 2017



**MANAGEMENT LETTER**

Honorable Mayor and Town Council  
 Town of Montverde, Florida

**Report on the Financial Statements**

We have audited the financial statements of the *Town of Montverde, Florida*, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 20, 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 Florida 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 the 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 accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 20, 2017, should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have not been taken to address the finding in the preceding annual report:

**Tabulation of Uncorrected Audit Findings**

Current Year Finding #	FY 2015 Finding #	FY 2014 Finding #
ML 16-4	ML 15-1	N/A

**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 has been disclosed in the notes to the financial statements.

**MCDIRMIT DAVIS & COMPANY, LLC**

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**Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether or not the *Town of Montverde, 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 Montverde, 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 Montverde, 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.

**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 Montverde, Florida* for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

**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. See Appendix C.

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.

**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 other granting agencies, the council members, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*McDiarmid Davis & Company, LLC*

Orlando, Florida  
June 20, 2017

**APPENDIX A - MATERIAL WEAKNESSES**

For the Year Ended September 30, 2016

**ML 16-1-Internal Controls Over Recording Transactions in Accordance with GAAP**

Criteria - AU-C Section 265 *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to evaluate whether or not the Town employees have the necessary skills and knowledge to apply generally accepted accounting principles (GAAP) in recording the Town's financial transactions and preparing its financial statements.

Condition - During our audit, we determined that the Town employees do not have the necessary skills and knowledge.

Cause - The Town has not filled a vacant position that was previously held by an employee with the necessary expertise.

Effect - Material misstatements in financial reporting could go undetected.

Recommendation - We recommend the Town hire an individual with the necessary expertise to assist with properly recording the Town's transactions and preparing the financial statements.

**ML 16-2-Insufficient Segregation of Duties**

Criteria - An effectively designed system of internal controls requires sufficient segregation of duties to mitigate the risk of material misstatement, whether due to fraud or error.

Condition - During our audit, we determined that the Town does not segregate duties between enough individuals to appropriately reduce the risk of control failure.

Cause - The Town has not filled a position vacated by the previous Finance Director, and consequently, one employee has responsibility for receiving cash, posting to the general ledger, making adjustments and closing entries, and also assists with the bank reconciliation.

Effect - Material misstatements, whether due to fraud or error, could go undetected.

Recommendation - In conjunction with the recommendation in ML 16-1, we recommend that the Town hire a qualified individual to fill the vacant position. We then recommend that the Town appropriately design and segregate duties between the Finance Department employees to provide sufficient segregation of duties and oversight.

TOWN OF MONTVERDE, FLORIDA

**APPENDIX B - SIGNIFICANT DEFICIENCIES**

For the Year Ended September 30, 2016

**ML 16-3-Supporting Documentation**

Criteria - Adjustments by journal entry must be substantiated by supporting documentation.

Condition - During our audit, the Town could not provide supporting documentation for manual journal entries that were selected for testing.

Cause - The Town does not have a policy in place that requires documentation for manual journal entries that supports and evidences proper approval for each entry.

Effect - The financial statements could be significantly misstated, whether due to fraud or error.

Recommendation - We recommend the Town evaluate its policy regarding the posting of manual journal entries and the documentation requirements thereon. Due to the potential effect of improper journal entries, effective controls over the process is essential to accurate financial reporting.

**APPENDIX C - RECOMMENDATIONS TO IMPROVE FINANCIAL MANAGEMENT**

For the Year Ended September 30, 2016

**ML 16-4-Bank Reconciliations**

Criteria - Bank reconciliations are an integral part of the financial reporting process, and can help identify unrecorded or improperly recorded amounts.

Condition - The Town has not reconciled the bank account where all cash receipts are deposited.

Cause - The Town has been unable to fully reconcile the bank account.

Effect - The financial statements could be significantly misstated, whether due to fraud or error. The theft of cash could go undetected.

Recommendation - In conjunction with the recommendation in ML 16-1, we recommend the Town hire an individual with the appropriate expertise to reconcile the bank accounts in a timely manner.

**ML 16-5-Timely Deposits of Cash Receipts**

Criteria - In order to appropriately reduce the risk of misstatement due to fraud or error, cash receipts should be deposited into the bank account in a timely manner, and no cash receipt should take more than one week to be deposited in the bank account.

Condition - Cash receipts during the year were not deposited timely, and certain deposits selected for testing were not made until more than one month after receipt. Additionally, the Town was unable to trace one receipt selected for testing to the bank statement.

Cause - The Town does not have an effectively designed cash handling policy.

Effect - The financial statements could be significantly misstated, whether due to fraud or error.

Recommendation - We recommend the Town develop cash handling policies and procedures that ensure that a) cash is deposited in a timely manner and b) cash receipts and deposits can easily be traced from the cash receipt to the deposit and to the general ledger.

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH  
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

The Honorable Mayor and Town Council  
*Town of Montverde, Florida*

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Town's compliance with specified requirements.

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

*McDirmit Davis & Company, LLC*

Orlando, Florida  
June 20, 2017

Honorable Mayor and Town Council  
*Town of Montverde, Florida*

We have audited the financial statements of *Town of Montverde* as of and for the year ended September 30, 2016, and have issued our report thereon dated June 20, 2017. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated March 21, 2017, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of *Town of Montverde* solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Town of Montverde is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the District adopted GASB No. 72, *Fair Value Measurement and Application*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate for the allowance for doubtful accounts is based on historical loss levels, and an analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimation for the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for the allocation of FRS pension related balances between the governmental activities and the Water Fund are based on the amount of pension contributions required to be made by each reporting unit. We evaluated the reasonableness of the allocation factor in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Town of Montverde's financial statements relate to revenue recognition as described in Note 1.

## **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.



## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management:

- Accrual of an additional \$8,464 of accounts payable
- Correction of beginning balances of \$4,758 for prior audit entries not posted
- Reclassification of accounts payable balances between the funds totaling \$50,525

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Town of Montverde's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated June 20, 2017.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with Town of Montverde, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Town of Montverde's auditors.

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

Very truly yours,

*McDiernit Davis & Company, LLC*

Orlando, Florida  
June 20, 2017



6-29-2017

McDermitt Davis & Company, LLC  
934 N. Magnolia Avenue  
Suite 100  
Orlando FL 32803

Re: Management Letter  
Town of Montverde

In response to the Management Letter dated June 20, 2017 pursuant to the Town of Montverde annual audit for fiscal year ended September 30, 2016, please find below the Town of Montverde management responses to the Management Letter Audit Comments:

**ML-16-01- Internal Controls Over Recording Transactions in Accordance with GAAP**

Management agrees that the Town needs to hire an individual with the necessary expertise to assist with properly recording the Town's transactions and preparing the financial statements.

**ML 16-2-Insufficient Segregation of Duties**

Management agrees with the need to better segregate the duties between the Finance Department employees to ensure the sufficient segregation of duties and oversight. Management will revise/establish policies to provide for appropriate segregation.

**ML 16-3- Supporting Documentation**

Management agrees that the Town should substantiate documentation on all manual adjusting journal entry and has established a procedure and taken corrective action to assure that proper supporting documentation is available.

**ML 16-4- Bank Reconciliations**

Management agrees that the Town will need to hire an individual with the appropriate expertise to reconcile the bank accounts in a timely manner.

**ML 16-5-Timely Deposits of Cash Receipts**

Management has already implemented a corrective action with the cash deposits. This is now done weekly along with the logging and entries into the general ledger.

Many Thanks



**Joe Wynkoop**

**Mayor**

Tel: [\(407\) 469-2681](tel:(407)469-2681) | Fax: [\(407\) 469-2773](tel:(407)469-2773)

