

TOWN OF KENNETH CITY, FLORIDA
BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND REGULATORY REPORTS

Year Ended September 30, 2016

Crawford & Jones, CPA's

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF KENNETH CITY, FLORIDA

Year Ended September 30, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Kenneth City, Florida's discussion and analysis is designed to (a) assist the reader in focusing on the financial issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position, (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns for the fiscal year ended September 30, 2016.

FINANCIAL HIGHLIGHTS

*At the close of fiscal year 2016, the Town's assets exceeded its liabilities, resulting in net position of \$7,336,970. Of this amount, the unrestricted net position totals to \$843,535 that can be used to meet the Town's ongoing obligations.

*At September 30, 2016, the Town's governmental activities fund balance reported an ending fund balance of \$4,571,586, an increase of \$86,810 in comparison with the prior year.

*There are no business-type activities for the Town.

*At September 30, 2016, unassigned fund balance for the General Fund was \$1,493,376.

*Governmental fund revenue decreased by \$1,222,937 or 31.39 percent over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components:

- 1) government-wide financial statements
- 2) fund financial statements
- 3) notes to financial statements

This report also contains required supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of the Town's assets and deferred outflow of resources and liabilities and deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net assets 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 fiscal year 2016. 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).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, highway and streets, sanitation, cultural and recreation.

The government-wide financial statements include only the Town. There were no component units identified.

The government-wide financial statements can be found on pages 7 and 8 of the Town's financial statements.

Fund financial statements

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriated. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled.

The Town's funds are presented in separate fund financial statements. These funds are presented on a governmental fund financial statement.

Governmental funds

Governmental fund financial statements are prepared on the modified accrual basis using current financial resources measurement focus. Under modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's program.

The Town adopts an annual budget for all funds and a budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 - 27 of the statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This includes the governmental funds original and final budget in comparison to actual expenses and the GASB statement no. 68 disclosure.

Infrastructure assets

The Town has elected under GASB Statement 34 not to retroactively report infrastructure assets. Historically, a government's largest group of assets (infrastructure-roads, bridges, sidewalk curbs, underground pipes unless associated with a utility, etc.) have not been reported or depreciated in the Town's financial statements. The statement requires that these assets be valued and recorded within the governmental columns of the government-wide statements.

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, assets exceeded liabilities by \$7,124,109 at the close of fiscal year ended September 30, 2016. The following table reflects the condensed Statement of Net Position:

Town of Kenneth City, Florida
Statement of Net Position
As of September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$4,691,742	\$4,577,183
Capital Assets (Net of Allowance)	<u>3,854,338</u>	<u>3,749,264</u>
Total Assets	8,546,080	8,326,447
Deferred Outflow of Resources	<u>657,848</u>	<u>316,654</u>
Total Assets and Deferred Outflow of Resources	<u>\$9,203,928</u>	<u>\$8,643,101</u>
Current Liabilities	\$ 125,156	\$ 97,407
Noncurrent Liabilities	105,083	99,083
Net Pension Liability	<u>1,191,732</u>	<u>722,300</u>
Total Liabilities	1,421,971	918,790
Deferred Inflow of Resources	444,987	578,191
Net Position	<u>7,336,970</u>	<u>7,146,120</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$9,203,928</u>	<u>\$8,643,101</u>

For more detailed information, see Statement of Net Position on page 7 of The Town's financial statements.

The largest portion of the Town's net position (62.20 percent) reflects its investment in current and other assets net of related debt.

A portion of the Town's net position (52.16 percent) reflects its investment in capital assets (e.g., land, building and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Activities

The following schedule summarizes the revenues and expenses for the current and prior fiscal year.

Town of Kenneth City, Florida
Statement of Activities
For the Year Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 76,985	\$ 852,433
General Revenues:		
Taxes	2,544,673	3,005,352
Investment Earnings (Net)	26,235	17,073
Grants	3,799	4,822
Miscellaneous	<u>21,377</u>	<u>16,325</u>
Total Revenues	<u>2,673,069</u>	<u>3,896,005</u>
Expenses		
General Government	762,244	580,267
Public Safety	1,438,855	2,721,489
Highways and Streets	252,128	214,879
Parks and Recreation	13,242	7,912
Other	<u>15,750</u>	<u>7,248</u>
Total Expenses	<u>2,482,219</u>	<u>3,531,795</u>
Increase in Net Position	190,850	364,210
Net Position – Beginning	<u>7,146,120</u>	<u>6,781,910</u>
Net Position – Ending	<u>\$7,336,970</u>	<u>\$7,146,120</u>

Governmental Funds

The focus of the Town's governmental funds is to provide a detailed short-term view of the Town's general government operations. The information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's program. In particular, unrestricted 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 fiscal year 2016, the Town's governmental funds reported ending fund balances totaling \$4,571,586, an increase of \$86,810 in comparison with the prior year. There was a decrease in revenue of 31.39 percent compared to the previous year. Expenditures also decreased by 33.93 percent.

The decrease in revenue is partly due to a decline in red light camera fund revenues from \$724,767 in 2015 to \$58,981 in 2016. Actual camera infractions ceased in September 2015 when the Town terminated the operational contract with ATS. In addition, the substantial completion in 2015 of the stormwater conveyance project with Southwest Florida Water Management District also contributed to the overall decline in revenue and expenses for 2016.

Governmental Funds Cont.

Unassigned fund balance is \$1,493,376 and is available for spending at the Town's discretion.

The remainder of the fund balance is not available for spending and has been committed to police department use, city revitalization (red light camera fund), and restricted for capital improvements.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget for the current fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets as of September 30, 2016 totaled \$3,827,255, net of accumulated depreciation and related debt. This investment in capital assets includes land, building improvements other than building, capital leases, and equipment. The total expenditures for capital assets for the current fiscal year were \$272,854.

Major increases in capital assets during the current fiscal year included the following:

- Purchase of equipment for \$150,472
- Purchase of building improvements and infrastructure for \$117,382

Town of Kenneth City, Florida
Schedule of Capital Assets (Net of Depreciation)
As of September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Land	\$ 250,000	\$ 250,000
Buildings & Infrastructure	3,374,673	3,315,636
Equipment	<u>229,665</u>	<u>183,628</u>
Totals	<u>\$3,854,338</u>	<u>\$3,749,264</u>

Additional information on the Town's capital assets can be found on page 20 of the Town's financial statements.

Long-term Debt

At the end of fiscal year 2016, the Town reported \$83,000 in Accrued Compensated Absences, Due to Other Governments of \$22,083 and Net Pension Liability of \$1,191,732 as its long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the current fiscal year, property taxable values decreased compared to the prior year.

An estimated increase in salaries and wages is expected based on the annual consumer price index for the southern region.

REQUEST FOR INFORMATION

This financial report is designed to present users with a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town's Finance Officer at 6000 54th Avenue North, Kenneth City, Florida 33709.

TOWN OF KENNETH CITY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 4,071,538
Investments	515,225
Receivables	100,950
Inventory of Gasoline	4,029
Total Current Assets	<u>4,691,742</u>

Noncurrent Assets:

Capital Assets:	
Non-Depreciable	250,000
Depreciable, Net	3,604,338
Total Capital Assets-Net	<u>3,854,338</u>
Total Noncurrent Assets	<u>3,854,338</u>

Total Assets	8,546,080
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Deferred Outflow of Resources:

Related to Pensions	<u>657,848</u>
Total Assets & Deferred Outflow of Resources	<u><u>\$ 8,546,080</u></u>

Liabilities:

Current Liabilities:

Accounts Payable	\$ 37,148
Accrued Payroll	34,430
Other Liabilities	48,578
Current Portion Due To Other Governments	5,000
Total Current Liabilities	<u>125,156</u>

Noncurrent Liabilities:

Accrued Compensated Absences	83,000
Due To Other Governments	22,083
Net Pension Liability	1,191,732
Total Noncurrent Liabilities	<u>1,296,815</u>

Total Liabilities	<u>1,421,971</u>
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Deferred Inflow of Resources:

Related to Pensions	<u>444,987</u>
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Net Position:

Investment in Capital Assets (Net of Depreciation and Related Debt)	3,827,255
Restricted	2,666,180
Unrestricted	<u>843,535</u>
Total Net Position	<u>7,336,970</u>

Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 9,203,928</u></u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

						Net (Expense)
						Revenue and
						Changes in Net Position

General Revenues:

Taxes:

Property Taxes	595,172
Intergovernmental	414,553
Infrastructure Tax	438,350
Sales Tax	313,931
Franchise tax	379,357
Utility Tax	403,310
Total Taxes	2,544,673

Interest Income	26,235
Miscellaneous	21,377

Total General Revenues	2,592,285
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Change in Net Position	190,850
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Net Position-Beginning of Year	7,146,120
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Net Position-End of Year	\$ 7,336,970
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Red Light Camera Fund</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Cash and Cash Equivalents	\$ 1,012,314	\$2,654,603	\$ 404,621	\$ 4,071,538
Investments	515,225	-	-	515,225
Receivables	69,121	31,829	-	100,950
Inventory of Gasoline	4,029	-	-	4,029
Total Assets	<u>\$ 1,600,689</u>	<u>\$2,686,432</u>	<u>\$ 404,621</u>	<u>\$ 4,691,742</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$ 16,896	\$ 20,252	\$ -	\$ 37,148
Accrued Payroll	34,430	-	-	34,430
Other Liabilities	48,578	-	-	48,578
Total Liabilities	<u>99,904</u>	<u>20,252</u>	<u>-</u>	<u>120,156</u>
<u>Fund Balances:</u>				
Nonspendable:				
Inventory	4,029	-	-	4,029
Restricted	-	2,666,180	-	2,666,180
Committed:				-
City Revitalization	-	-	404,621	404,621
Police Training	3,380	-	-	3,380
Unassigned	<u>1,493,376</u>	<u>-</u>	<u>-</u>	<u>1,493,376</u>
Total Fund Balances	<u>1,500,785</u>	<u>2,666,180</u>	<u>404,621</u>	<u>4,571,586</u>
Total Liabilities and Fund Balances	<u>\$ 1,600,689</u>	<u>\$2,686,432</u>	<u>\$ 404,621</u>	<u>\$ 4,691,742</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total Fund Balances - Total Governmental Funds	\$ 4,571,586
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Amounts reported for governmental activities in the statement of net assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Non-depreciable capital assets	250,000
Depreciable capital assets, net	3,604,338
	3,854,338
 Total capital assets	 3,854,338

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Due to other governments	(27,083)
Accrued compensated absences	(83,000)
	(110,083)
 Total long-term liabilities	 (110,083)

Adjustments necessary for the implementation of GASB Statements 68 and 71 are not reported in the Governmental Fund statements. The amounts related to those adjustments are:

Deferred Outflow of Resources	657,848
Net Pension Liability	(1,191,732)
Deferred Inflow of Resources	(444,987)
	(978,871)
 Total Adjustments	 (978,871)

Net Position of Governmental Activities	\$ 7,336,970
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Capital Projects Fund	Red Light Camera Fund	Total Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 998,482	\$ -	\$ -	\$ 998,482
Intergovernmental Revenue	599,117	438,350	-	1,037,467
Franchise Fees	379,357	-	-	379,357
Fines and Forfeitures	18,004	-	58,981	76,985
Licenses and Permits	129,367	-	-	129,367
Grant	3,799	-	-	3,799
Interest Income	26,235	-	-	26,235
Miscellaneous Revenues	21,377	-	-	21,377
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	2,175,738	438,350	58,981	2,673,069
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	487,278	132,303	20,883	640,464
Public Safety	1,386,808	5,013	-	1,391,821
Highways and Streets	252,128	-	-	252,128
Parks and Recreation	13,242	-	-	13,242
Miscellaneous	15,750	-	-	15,750
<u>Capital Outlay:</u>				
General Government	-	112,576	79,121	191,697
Public Safety	-	81,157	-	81,157
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	2,155,206	331,049	100,004	2,586,259
	<hr/>	<hr/>	<hr/>	<hr/>
Revenues Over/(Under) Expenditures	20,532	107,301	(41,023)	86,810
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - Beginning of Year	1,480,253	2,558,879	445,644	4,484,776
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - End of Year	<u>\$ 1,500,785</u>	<u>\$ 2,666,180</u>	<u>\$ 404,621</u>	<u>\$ 4,571,586</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net Change in Fund Balance - Total Governmental Funds	\$ 86,810
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Amount reported for governmental activities in the Statement
of Activities and Changes in Net Assets were different because:

Pension expense was adjusted per GASB Statements 68 and 71	4,966
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Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded as expenditures in the current period.	267,854
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Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the Governmental Funds Balance Sheet. Payments on the obligation "Due to Other Governments" are included in General Government Expenditures in the Capital Projects Fund. (see note 8 of the financial statements).	5,000
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(162,780)
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Long-term compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, the change in long-term compensated absences were not reported as expenditures in governmental funds.	<u>(11,000)</u>
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Change in Net Position of Governmental Activities	<u>\$ 190,850</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. Summary of Significant Accounting Policies

The Town of Kenneth City, Florida, (Town) maintains its accounting records in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

(A) Financial Reporting Entity – The Town of Kenneth City was incorporated on May 9, 1957 under the laws of Florida Section 2, Chapter 57-1462. The Town provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general administrative services. The legislative branch of the Town is composed of a five (5) member elected Town Council and Mayor. The Town Council is governed by the Charter and by state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The executing of such policy is the responsibility of the Town Manager. In the November 2013 election the citizens approved a new Town Charter. The Charter provides for a Town Manager. The Manager was hired and began effective March 2014.

Governmental accounting standards require that this financial statement present the Town of Kenneth City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. Based upon the application of these criteria, no component units were identified.

(B) Basis of Accounting and Measurement Focus – Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town are property tax, sales tax, special assessments, intergovernmental revenues, other taxes and interest revenue. Fines, forfeitures, licenses and permits are not susceptible to accrual because they are usually not measurable until received in cash. However, the Town does accrue red light camera fines based on known violations and expected collection in the next period. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the deferred revenue is removed from the combined balance sheet and revenue is recognized.

Reconciliation of the Fund Financial Statements to the government-wide financial statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. Summary of Significant Accounting Policies Continued

Government-Wide Financial Statements - The Town's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the Town.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Town:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Governmental Fund Financial Statements - Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Town has presented all funds.

All governmental funds are accounted for on a spending or current economic resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the fund balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The Town reports the following governmental funds:

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

Capital Projects Fund – The Capital Projects Fund is used to account for the economic resources to be used for the acquisition or construction of major capital facilities and improvement projects.

Red Light Camera Fund – The Red Light Camera Fund is used to report the revenue generated by the use of cameras as traffic detectors and any expenses associated therewith as defined by Town Council. Net revenues of the fund are to be used for Town revitalization.

(C) Accumulated Compensated Absences - It is The Town's policy is to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees at some future date.

Employees separating or retiring from service with the Town are paid a portion of accumulated vacation and sick time, depending on years of service attained.

In the government-wide financial statements, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

In the fund financial statements, compensated absences are recorded as expenditures in the years paid, as it is the Town's policy is to liquidate any unpaid compensated absences at September 30 from future resources, rather than currently available financial resources.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. Summary of Significant Accounting Policies Continued

(D) Inventory - Inventory is valued at FIFO cost, which approximates market value. The cost of inventory is recorded as expenditures/expenses when consumed rather than when purchased.

(E) Interfund Transactions – Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers and are netted as part of the reconciliation to the government-wide presentation.

(F) Finance-Related Legal and Contractual Provisions – The Town is not aware of any violation nor has been notified of any violation of finance-related legal and contractual provisions.

(G) Fund Equity – The Town implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the fiscal year ended September 30, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Each classification of fund balance is based on the relative strength of the constraints that control how specific amounts can be spent. The order of spending would follow the same hierarchy; that is, if an amount for a specific purpose is categorized as restricted or committed, then spending for such purpose would come from that classification before any lower classification, and could not come from amounts categorized at a higher level.

Nonspendable fund balance represents amounts that cannot be spent, such as inventories, prepaid amounts, and amounts that are legally or contractually required to remain intact.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by formal vote of the Town Council.

Assigned fund balance includes amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed because they are supported by management's intent rather than a formal action of the Town Council.

Unassigned fund balance can only be found in the general fund; it represents the residual amount of fund balance not contained in the other classifications.

Net Position

In compliance with GASB Statement No. 63, the government-wide financial statements utilize a net position presentation. Net position is presented in three components: net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets. This component does not include the portion of debt attributable to the unspent proceeds.

Restricted - This component consists of net position that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provision or enabling legislation.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. Summary of Significant Accounting Policies Continued

Unrestricted – This component consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

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

The Town of Kenneth City does not have a formally adopted stabilization arrangement or minimum fund balance policy.

(H) Use of Estimates – The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(I) Post – Employment Benefits – The Town provides post – employment benefits through the FRS Pension Plan.

(J) Capital Assets – Capital assets, which includes land, buildings, improvements, furniture, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost, if actual cost is not available. Donated assets are valued at their fair market value on the date of donation. Town policy has set the capitalization threshold for reporting capital assets at \$1,000.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Building and structures	40 years
Equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments’ basic financial statements. In accordance with Statement No. 34, the Town has elected not to retroactively report infrastructure in its basic financial statements.

The Town defines infrastructure as the basic physical assets that allow the Town to function. It includes the street system, park and recreation lands and improvements system; storm water conveyance and drainage system, buildings combined with site amenities such as parking and landscaping areas used by the Town in the conduct of its business.

(K) Recently Issued and Implemented Accounting Pronouncements

Government Accounting Standards Board (GASB) Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, amends Statement No. 34. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position by distinguishing them from assets and liabilities. Net position replaces the terminology net assets in the Statement of Net Position. The requirements of Statement No. 63 were effective in the fiscal year 2013. Its implementation has introduced the new elements mentioned above to the Statement of Net Position and the Balance Sheet.

Deferred Outflows of Resources is a consumption of net assets by the government that is applicable to future reporting period.

Deferred Inflows of Resources is an acquisition of net assets by the government that is applicable to a future reporting period.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. Summary of Significant Accounting Policies Continued

Government Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of Statement No. 65 are effective in fiscal year 2014.

Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The scope of this statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures as well as disclosure requirements and supplementary information.

Government Accounting Standards Board (GASB) Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which resolves transition issues in that statement. The statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68.

2. Pooled Cash, Cash Equivalents and Investments

The Town maintains pooled cash accounts that contain the cash of all funds. The Town's policy requires that all cash deposits and certificates of deposit are first covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Security for Public Deposits Act as defined by Florida Statutes Section 280.02. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository are assessed against the other qualified public depositories of the same type as the depository in default.

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investment with original maturities of three months or less from the date of acquisitions. Investments are reported at fair value.

Cash and Cash Equivalents - Consists of the following:

	<u>Fair Value</u>
Cash on Hand	\$ 300
Cash in Bank – Regular	210,420
Cash in Bank – Payroll	1,000
Cash in Money Market	<u>3,859,806</u>
	<u>\$4,071,538</u>

Investments - Certificates of Deposit:

<u>Term</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Fair Value</u>
1 Yr	.70%	05/02/17	\$ 515,255
			<u>\$ 515,225</u>

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

2. Pooled Cash, Cash Equivalents and Investments Continued

Investments may be subject to the following types of risk:

- (1) Credit Risk – Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Town's investing activities are managed by the Town's Financial Officer. Investing is performed in accordance with investment policies adopted by the Town Council complying with applicable Florida Statutes and the Town Charter.
- (2) Interest Rate Risk - Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.
- (3) Concentration of Credit Risk - Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.
- (4) Custodial Credit Risk – For investments, Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

The Town believes that the investment policies have been applied in such a way as to minimize the risks described above.

Investment Policy - The Town's investment policy is to maintain funds in investments which yield the highest possible efficiency and return within the limitations established by Florida Statutes, Chapter 218.415. Provisions of those statutes authorize the Town to invest in:

- (1) Florida State Board of Administration Local Government Pooled Investment Fund.
- (2) Bonds, notes or other obligations of the United States or for which the credit of the United States is pledged for the payment thereof.
- (3) Interest-bearing time deposits, savings accounts or collective investment funds in banks or savings and loan associations organized under the laws of the United States.
- (4) Obligations of the federal farm credit banks and Federal Home Loan Mortgage Corporation.
- (5) Obligations of the Federal National Mortgage Association and the Government National Mortgage Association.

3. Receivables

Accounts receivable at September 30, 2016 consist of receivables in all Funds. Accounts receivable are stated at net realizable value. The Town considers the receivables fully collectible and has not provided an allowance for doubtful accounts.

4. Advance Revenue Collections

Monies collected in advance for licenses are recorded as revenue in the year for which the related licenses are valid. At September 30, 2016, there was \$45,669 revenue collections relating to licenses.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

5. Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector.

The tax levy of the Town is established by the Town Council prior to October 1 of each year and the Pinellas County Property Appraiser incorporates the Town's millages into the total tax levy, which includes the Pinellas County School Board tax requirements. The millage rate assessed by the Town was 4.7592 for the fiscal year beginning October 1, 2015 and ending September 30, 2016.

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of applicable Florida Statutes.

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

Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years.

Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

Because of the Pinellas County Tax Collector's office efficient system for selling tax certificates and remitting the proceeds to the Town, any delinquent or uncollected property taxes at year end are immaterial. The Town's tax calendar is as follows:

Valuation Date:	January 1
Levy Date:	November 1
Due Date:	March 31, succeeding year
Lien Date:	April 1, succeeding year

6. Post-employment Benefits

Post-employment health care benefits are made available to the Town's terminated employees in accordance with the consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Under COBRA, the Town is required to offer an election to deceased or terminated participants, their spouses or dependents to continue coverage in the health plan provided by the Town. The Town charges the participant the applicable premium.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

7. Capital Assets

Capital assets for the year ended September 30, 2016 consisted of the following:

	<u>Balance</u> <u>09/30/15</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Disposals/</u> <u>Transfers out</u>	<u>Balance</u> <u>9/30/16</u>
<u>Non Depreciable Assets:</u>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Total Non Depreciable Assets	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
<u>Depreciable Assets:</u>				
Buildings & Infrastructure				
Infrastructure	3,226,620	81,322	-	3,307,942
58th Street Building & Improvement	441,335	3,934	-	445,269
Community Center	110,807	9,625	-	120,432
Garage	51,224	-	-	51,224
Fire Station	132,583	-	-	132,583
54th Avenue Town Hall	<u>405,767</u>	<u>22,501</u>	<u>-</u>	<u>428,268</u>
Total Buildings & Infrastructure	<u>4,368,336</u>	<u>117,382</u>	<u>-</u>	<u>4,485,718</u>
<u>Equipment</u>				
General	135,619	-	-	135,619
Police Dept.	784,503	81,157	(66,515)	799,145
Public Works	221,622	69,315	-	290,937
Other	<u>211,460</u>	<u>-</u>	<u>-</u>	<u>211,460</u>
Total Equipment	<u>1,353,204</u>	<u>150,472</u>	<u>(66,515)</u>	<u>1,437,161</u>
Total Depreciable Assets	5,721,540	267,854	(66,515)	5,922,879
Accumulated Depreciation	<u>(2,222,276)</u>	<u>(162,780)</u>	<u>66,515</u>	<u>(2,318,541)</u>
Total Depreciable Assets Net	<u>3,499,264</u>	<u>105,074</u>	<u>-</u>	<u>3,604,338</u>
Total Capital Assets Net	<u>\$ 3,749,264</u>	<u>\$ 105,074</u>	<u>\$ -</u>	<u>\$3,854,338</u>

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

7. Capital Assets Continued

Details of accumulated depreciation activity for year ending September 30, 2016 are as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions/</u> <u>Transfers In</u>	<u>Disposals/</u> <u>Transfers Out</u>	<u>Balance</u> <u>2016</u>
Buildings and Improvements	\$ 601,327	\$ 30,289	\$ -	\$ 631,616
Infrastructure	398,126	81,303	-	479,429
Equipment	<u>1,222,823</u>	<u>51,188</u>	<u>66,515</u>	<u>1,207,496</u>
	<u>\$2,222,276</u>	<u>\$162,780</u>	<u>\$ 66,515</u>	<u>\$2,318,541</u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 119,780
Public Safety	<u>43,000</u>
	<u>\$ 162,780</u>

8. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and distribution of assets, errors and omissions, injuries to employees, and natural disasters. In an effort to reduce the rising costs of commercial insurance, the Town purchases its insurance coverage from Public Risk Management of Florida (PRMF).

The PRMF is a public entity risk pool currently operating as a common risk management and insurance program for local municipalities. The Town pays an annual premium to the PRMF for property, liability, workers' compensation and all other risks of loss including building and contents, employee and police bonds, mobile property, flood and employee accident insurance. The PRMF, through its various Trusts, establishes premium rates based on members' experience and provides insurance coverage for 32 Florida municipalities. Each Trust carries its own reinsurance coverage which operates through an internal process of recovery for large claims on behalf of each individual Trust. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Town continues to carry commercial insurance for employee health and accident insurance. Effective November 1, 1999, the Town established a Cafeteria Plan, within the meaning of Section 125 of the Internal Revenue Code of 1954, to provide employees of the Town with a choice of receiving certain tax-free welfare benefits.

In the opinion of the Town's management and legal counsel, legal claims and litigation are not anticipated to have a material impact on the financial position of the Town.

9. Commitments

Fire Protection Services

In February 2010, the Town entered into a contract with the City of Pinellas Park, Florida to receive fire protection services commencing February 26, 2010 and continuing for a period of 10 years. Pinellas Park was compensated \$212,289 the first year with the rate rising each year to \$239,562 in the fifth year. The amount paid for the year ended September 30, 2016 was \$250,689.

Pursuant to the agreement, during the year ended September 30, 2011, Pinellas Park refurbished the Town's existing fire station at a cost of \$60,000. The Town agreed to repay Pinellas Park at the rate of \$5,000 per year. The Statement of Net Position includes a \$60,000 capital asset and a liability, "Due to Other Governments" of \$27,083, for the unpaid portion of the obligation.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

9. Commitments Continued

Building Department Services

The Town has contracted with the City of Pinellas Park to provide building department services. The expenditure for these services for the year ended September 30, 2016 was \$79,766.

Maintenance of Traffic Control Signals and Devices

The Town has contracted with the City of St. Petersburg to provide maintenance of traffic control signals and devices. The expenditure for this service for the year ended September 30, 2016 was \$24,987.

Law Enforcement Services

The Town has contracted with the Pinellas County Sheriff's Department to provide crime scene services, latent print services, property and evidence processing and storage and computer-aided dispatch. The expenditure for these services for the year ended September 30, 2016 was \$32,406.

10. Compensated Absences

Accrued compensated absences are as follows:

Balance at September 30, 2015	\$ 72,000
Net Change	<u>11,000</u>
Balance at September 30, 2016	<u>\$ 83,000</u>

Changes in compensated absences are reported as expenses in the Government-wide Statement of Activities.

11. Red Light Camera Fund

On September 12, 2012, the Town Council established a fund titled "Red Light Camera Fund". The fund consists of all funds generated from the utilization of cameras as traffic infraction detectors and any expenses associated therewith as defined by Town Council. From October 1, 2010 forward, the funds so generated shall be committed to the fund for the purposes and projects of the revitalization of commercial corridors and to enhancing and beautifying residential areas. The fund began operating as such on October 1, 2012. The ATS contract and RLC infractions from the RL cameras stopped as of September 30, 2015 though residual RLC Fund revenues were collected in 2016.

12. Restricted Fund Balances

A portion of the Fund Balances and Net Position in these financial statements is restricted for the acquisition or construction of major capital facilities and improvements. These restrictions consist of \$2,666,180 in the Capital Projects Fund.

13. Contingency

The Town is a defendant in a class action lawsuit seeking to recover any and all fines collected as a result of Red Light Camera infractions. The Town is represented by counsel paid for by its vendor, ATS, and is vigorously contesting the case. The Town's attorney remains informed on the progress of the litigation. The likelihood of an unfavorable outcome or the amount of potential loss in this matter cannot be determined at this time. Therefore no loss contingency has been provided for in these financial statements.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

14. Employee Retirement Systems

Defined Contribution Plan – Non-Union

The Town provides pension benefits for all of its full-time non-union employees through a defined contribution non-contributory single employer plan administered by Transamerica Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate if they have attained age 20.5 and six months of service as of the beginning of the plan year, April 25. The Town contributes an amount equal to 12% of the employee's base salary each month. The Town's contributions for each employee (and interest allocated to the employee's account) begin vesting with 20% at three years increase 20% for each year thereafter, and are fully vested after seven years of continuous service. Town contributions for, and interests forfeited by, employees who leave employment before three years of service are used to reduce the Town's current-period contribution requirement.

For the year ended September 30, 2016, contributions required and paid were \$19,074.

Defined Contribution Plan – Other

The Town also provides pension benefits for its full-time salaried/management employees through a money purchase plan administered by ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate if they are employed as of the beginning of the plan year, March 1.

The Town contributes an amount equal to 12% to 18% of the employee's base salary each month. The Town's contributions for each employee (and interest allocated to the employee's account) begin vesting immediately.

For the year ended September 30, 2016, contributions required and paid were \$18,078.

Florida Retirement System

Defined Benefit Plans

The Town participates in two defined benefit pension plans that are administered by the State of Florida, Department of Management Services, Division of Retirement. The plans provide retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report is available from the Florida Department of Management Services' website (www.dms.myflorida.com).

The Florida Retirement System (FRS) Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan with a Deferred Retirement Option Program (DROP) available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Sections 121.053 or 121.122, Florida Statutes, or allowed to participate in a defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. To be eligible to receive a HIS benefit, a retiree under a state administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

14. State of Florida Pension Plans Cont'd

Benefits Provided

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

Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes.

Contributions

The contribution requirements of plan members and the employer are established and may be amended by the Florida Legislature. Employees are required to contribute 3.00% of their salary to the FRS. The employer's contribution rates as of September 30, 2016, were as follows:

	FRS	HIS
Regular Class	5.86%	1.66%
Special Risk Class	20.91%	1.66%
Senior Management Service Class	20.11%	1.66%
Elected Officials	40.81%	1.66%
DROP from FRS	11.33%	1.66%

The employer's contributions for the year ended September 30, 2016, were \$104,219 to the FRS and \$9,045 to the HIS.

Pension Liabilities and Pension Expense

In its financial statements for the year ended September 30, 2016, the Town reported a liability for its proportionate shares of the net pension liabilities. The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation dated July 1, 2016. The Town's proportions of the net pension liabilities were based on the Town's share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

	FRS	HIS
Net pension liability	\$ 999,319	\$ 192,413
Proportion at:		
Current measurement date	0.0040%	0.0017%
Prior measurement date	0.0041%	0.0019%
Pension expense (benefit)	\$ 97,575	\$ 10,416

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

14. State of Florida Pension Plans Cont'd

Deferred Outflows/Inflows of Resources Related to Pensions

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

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 76,516	\$ (9,304)	\$ -	\$ (438)
Changes of assumptions	60,456	-	30,194	-
Net difference between projected and actual earnings on pension plan investments	459,724	(201,412)	97	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(202,900)	-	(30,933)
Employer contributions subsequent to the measurement date	28,430	-	2,431	-
Total	\$ 625,126	\$ (413,616)	\$ 32,722	\$ (31,371)

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending September 30, 2017. Other pension-related amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending September 30,	FRS	HIS
2017	\$ (763)	\$ (197)
2018	(763)	(197)
2019	99,592	(197)
2020	75,017	(197)
2021	7,532	(385)
Thereafter	2,465	93
Total	\$ 183,080	\$ (1,080)

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

14. State of Florida Pension Plans Cont'd

Actuarial Assumptions

The total pension liability for each of the defined benefit plans, measured as of June 30, 2016, was determined by an actuarial valuation dated July 1, 2016, using the individual entry age normal actuarial cost method and the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.60%	N/A
Discount rate	7.60%	2.85%

Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB.

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

The following changes in key actuarial assumptions occurred in 2016:

FRS: The long-term expected rate of return and the discount rate used to determine the total pension liability decreased from 7.65% to 7.60%.

HIS: The municipal bond index rate and the discount rate used to determine the total pension liability decreased from 3.80% to 2.85%.

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward-looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For the FRS Pension Plan, the table below summarizes the consulting actuary's assumptions based on the long-term target asset allocation. The reduced investment return assumption of 7.60 percent, which was adopted by the Florida Retirement System Actuarial Assumption Conference, conflicts with the consulting actuary's judgment of a reasonable assumption as defined by Actuarial Standards of Practice No. 27.

TOWN OF KENNETH CITY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

14. State of Florida Pension Plans Cont'd

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return
Cash	1%	3.0%	3.0%
Fixed income	18%	4.7%	4.6%
Global equity	53%	8.1%	6.8%
Real estate	10%	6.4%	5.8%
Private equity	6%	11.5%	7.8%
Strategic investments	12%	6.1%	5.6%
	<u>100%</u>		

Discount Rate

The discount rate used to measure the total pension liability for the FRS Pension Plan was 7.60%. FRS' 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 calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program is essentially funded on a pay-as-you-go basis, a municipal bond rate of 2.85% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

Sensitivity Analysis

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

	FRS			HIS		
	1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
	(6.60%)	(7.60%)	(8.60%)	(1.85%)	(2.85%)	(3.85%)
Employer's proportionate share of the net pension liability	\$ 1,839,814	\$ 999,319	\$ 299,718	\$ 220,741	\$ 192,413	\$ 168,902

Pension Plans' Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the State's separately issued financial reports.

TOWN OF KENNETH CITY, FLORIDA
BUDGETARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Fiscal Year

The fiscal year of the town shall begin on the first day of October and end on the last day of September.

Submission of Budget and Budget Message

On or before the first day of August of each year, the Town Manager shall submit to the Town Council a budget for the ensuing fiscal year and an accompanying message.

Budget Message

The Town Manager's message shall explain the budget both in fiscal terms and in terms of the work programs. It shall outline the proposed financial policies of the Town for the ensuing fiscal year, describe the important features of the budget, indicate any major changes from the current year in financial policies, expenditures, and revenues together with the reasons for such changes, summarize the Town's debt position and include such other material as the Town Manager deems desirable.

Budget

The budget shall provide a complete financial plan of all Town funds and activities for the ensuing fiscal year and except as required by law or Charter, shall be in such form as the Town Manager deems desirable or the Town Council may require. In organizing the budget, the Town Manager shall utilize the most feasible combination of expenditure classification by fund, organization unit, program, purpose or activity, and object. It shall begin with a clear general summary of its contents; shall show in detail all estimated income, indicating the proposed property tax levy, and all proposed expenditures, including debt service, for the ensuing fiscal year; and shall be so arranged as to show comparative figures for actual and estimated income and expenditures of the current fiscal year and actual income and expenditures of the preceding fiscal year. It shall indicate in separate section:

- (1) Proposed expenditures for current operations during the ensuing fiscal year, detailed by offices, departments and agencies in terms of their respective work programs, and the method of financing such expenditures;
- (2) Proposed capital expenditures during the ensuing fiscal year, detailed by offices, departments and agencies, when practicable, and proposed method of financing each such capital expenditure;
- (3) Anticipated net surplus or deficit for the ensuing fiscal year of each utility owned or operated by the Town and the proposed methods of its disposition; subsidiary budgets for each such utility giving detailed income and expenditure information shall be attached as appendices to the budget.

The total of proposed expenditures shall not exceed the total of estimated income.

Budget Adoption

The Town Council shall, by ordinance or resolution, each year adopt the budget on or before the thirtieth day of September. The ordinance or resolution adopting the annual budget shall constitute estimated revenues from various sources and appropriations specified therein for expenditures from the funds indicated. If, during the fiscal year, revenues in excess of those estimated in the budget are available for appropriation, the Town Council by ordinance or resolution may make supplemental appropriations for the year up to the amount of excess.

1. BUDGETARY INFORMATION, Continued

The following are the budget comparison schedules for General Fund and special revenue funds.

Budget Comparison Schedule, General Fund For the Year Ended September 30, 2016

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	\$ 1,480,253	\$ 1,480,253	\$ -
Resources (Inflows):			
Taxes	1,003,465	998,482	(4,983)
Intergovernmental	604,385	599,117	(5,268)
Franchise Fees	420,469	379,357	(41,112)
Fines and Forfeitures	20,000	18,004	(1,996)
Licenses and Permits	102,851	129,367	26,516
Interest Income	14,000	26,235	12,235
Miscellaneous Revenue	7,700	21,377	13,677
Grants	5,350	3,799	(1,551)
Amount Available for Appropriations	2,178,220	2,175,738	(2,482)
Charges to Appropriations (Outflows):			
Current:			
General Government	602,552	487,278	115,274
Public Safety	1,486,842	1,386,808	100,034
Highways and Streets	299,942	252,128	47,814
Parks and Recreation	16,775	13,242	3,533
Miscellaneous	33,150	15,750	17,400
Total Charges to Appropriations	2,439,261	2,155,206	284,055
Resources Over (Under) Charges To Appropriations	(261,041)	20,532	281,573
Change in Fund Balance	(261,041)	20,532	281,573
Fund Balance - End of Year	\$ 1,219,212	\$ 1,500,785	\$ 281,573

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Capital Projects Fund
For the Year Ended September 30, 2016

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	<u>\$ 2,558,879</u>	<u>\$ 2,558,879</u>	<u>\$ -</u>
Resources (Inflows):			
Intergovernmental	<u>491,996</u>	<u>438,350</u>	<u>(53,646)</u>
Amount Available for Appropriations	<u>491,996</u>	<u>438,350</u>	<u>(53,646)</u>
Charges to Appropriations (Outflows):			
Capital Outlay	1,182,000	193,733	988,267
Other	<u>40,000</u>	<u>137,316</u>	<u>(97,316)</u>
Total Charges to Appropriations	<u>1,222,000</u>	<u>331,049</u>	<u>890,951</u>
Resources Over (Under) Charges To Appropriations	<u>(730,004)</u>	<u>107,301</u>	<u>837,305</u>
Change in Fund Balance	<u>(730,004)</u>	<u>107,301</u>	<u>837,305</u>
Fund Balance - End of Year	<u><u>\$ 1,828,875</u></u>	<u><u>\$ 2,666,180</u></u>	<u><u>\$ 837,305</u></u>

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Red Light Camera Fund
For the Year Ended September 30, 2016

	Original/Final Budget	Actual	Budget Variance - Favorable (Unfavorable)
Fund Balance - Beginning of Year	<u>\$ 445,644</u>	<u>\$ 445,644</u>	<u>\$ -</u>
Resources (Inflows):			
Fines & Forfeiture	<u>60,000</u>	<u>58,981</u>	<u>(1,019)</u>
Amount Available for Appropriations	<u>60,000</u>	<u>58,981</u>	<u>(1,019)</u>
Charges to Appropriations (Outflows):			
Public Safety	39,916	13,737	26,179
Revitalization	<u>380,000</u>	<u>86,267</u>	<u>293,733</u>
Total Charges to Appropriations	<u>419,916</u>	<u>100,004</u>	<u>319,912</u>
Resources Over (Under) Charges To Appropriations	<u>(359,916)</u>	<u>(41,023)</u>	<u>318,893</u>
Change in Fund Balance	<u>(359,916)</u>	<u>(41,023)</u>	<u>318,893</u>
Fund Balance - End of Year	<u><u>\$ 85,728</u></u>	<u><u>\$ 404,621</u></u>	<u><u>\$ 318,893</u></u>

Town of Kenneth City, Florida
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System (FRS)
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	0.003957687%	0.004116019%
Town's proportionate share of the net pension liability (asset)	\$ 999,319	\$ 531,639
Town's covered employee payroll	\$ 559,020	\$ 541,241
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	178.77%	98.23%
Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%

Town of Kenneth City, Florida
Schedule of Proportionate Share of Net Pension Liability
Health Insurance Subsidy (HIS)
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Town's proportion of the net pension liability (asset)	0.001650964%	0.001869515%
Town's proportionate share of the net pension liability (asset)	\$ 192,413	\$ 190,661
Town's covered employee payroll	\$ 559,020	\$ 541,241
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	34.42%	35.23%
Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%

* The amount presented for each Plan measurement year were determined as of June, 30.

Note 1: GASB required information for 10 years. However, until a full 10-year trend is compiled, the Town is presenting information for only those years for information available.

Note 2: The Plan's fiduciary net position as a percentage of the total pension is published in Note 4 of the Plan's Comprehensive Annual Financial Report.

Note 3: The Plan's long-term expected rate of return and the discount used to determine the total pension liability for FRS decreased from 7.65% to 7.60%

Note 4: The municipal rate used to determine the total pension liability for HIS decreased from 4.29% to 3.80%.

Town of Kenneth City, Florida
Schedule of the Contributions
Florida Retirement System (FRS)
Last Fiscal 10 Years*

	<u>2016</u>	<u>2015</u>
Contractual required contribution	\$ 104,219	\$ 92,464
Contributions in relation to the contractually required contribution	<u>104,219</u>	<u>92,464</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered employee payroll	<u>\$ 559,020</u>	<u>\$ 541,241</u>
Contributions as a percentage of covered-employee payroll	18.65%	17.09%

Town of Kenneth City, Florida
Schedule of Contributions
Health Insurance Subsidy (HIS)
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Contractual required contribution	\$ 9,045	\$ 7,210
Contributions in relation to the contractually required contribution	<u>9,045</u>	<u>7,210</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered employee payroll	<u>\$ 559,020</u>	<u>\$ 541,241</u>
Contributions as a percentage of covered-employee payroll	1.62%	1.34%

* The amount presented for each Plan measurement year were determined as of June 30.

Note 1: GASB required information for 10 years. However, until a full 10-year trend is compiled, the Town is presenting information for only those years for information is available.