

TOWN OF PALM BEACH SHORES, FLORIDA
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2012

TOWN OF PALM BEACH SHORES, FLORIDA
 SEPTEMBER 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town of Palm Beach Shores, Florida's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Palm Beach Shores, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida as of September 30, 2012, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principals.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013, on our consideration of the Town of Palm Beach Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the required supplementary information on pages 36 through 38 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 U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Palm Beach Shores, Florida's financial statements as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
January 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Palm Beach Shores' discussion and analysis is designed to assist the reader by providing a narrative overview and analysis of the financial activities of the Town for the year ended September 30, 2012. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Town's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ended September 30, 2012:

- The Town's net assets increased by \$93,152 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2012 by \$7,155,065 (net assets). Of this amount, \$2,102,025 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's revenues for governmental activities were \$4,048,210, an increase of 1.8% from the prior year. The expenses for governmental activities were \$3,955,058, an increase of 0.8% over the prior year.
- The General Fund unassigned fund balance at September 30, 2012 was \$1,291,752 or 32% of total general fund expenditures. The ideal financial position for the Town would be an unreserved fund balance equal to 25% of total general fund expenditures. The reason for this is property taxes are not received until December and 25% of fund balance represents enough funds for three months of expenditures. This money also serves as an emergency fund for unanticipated costs, such as hurricanes or other disasters.

OVERVIEW OF 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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to these basic financial statements, this report contains other supplementary information.

Government-wide Financial Statements

The government-wide financial statements (pages 11 and 12) are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to private-sector business. These statements include the statement of net assets and the statement of activities which are designed to provide a broad overview of the Town as a whole.

The *statement of net assets* shows the total assets and liabilities for the Town with the difference reported as net assets. The change in net assets over time may be an indicator of the Town's financial health. The *statement of activities* provides a breakdown of revenues and expenditures by function. The functions primarily supported by taxes and intergovernmental revenues, such as police, fire and other public services are considered governmental activities.

Fund Financial Statements

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The fund financial statements focus on major funds. The Town uses governmental funds to account for all of its activities.

Governmental Funds (beginning on page 13) are used 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 requirement. All of the Town's basic services are reported in the governmental funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget on pages 39-41.

The Town has four other governmental funds: Public Buildings Impact Fund, Parks and Recreation Impact Fund, Fire Impact Fund, and Police Impact Fund. These are capital projects funds used to account for impact fees that must be spent on specific types of capital expenditures. These are non-major funds.

Notes to the Financial Statements (beginning on page 17) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$7,155,065 as of September 30, 2012.

Net Assets			
(In thousands of dollars)			
Governmental Activities			
	2012	2011	Increase (Decrease)
Assets:			
Current and other assets	\$ 2,569	\$ 2,509	\$ 60
Capital assets	5,221	5,340	(119)
Total assets	\$ 7,790	\$ 7,849	\$ (59)
Liabilities:			
Long-term debt outstanding	\$ 385	\$ 594	\$ (209)
Other liabilities	250	193	57
Total liabilities	\$ 635	\$ 787	\$ (152)
Net Assets:			
Invested in capital assets, net of related debt	\$ 5,013	\$ 4,931	\$ 82
Restricted	40	13	27
Unrestricted	2,102	2,118	(16)
Total net assets	\$ 7,155	\$ 7,062	\$ 93

The largest portion of the Town's net assets reflects its investment in capital assets (e.g. land, building, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent unspent funds with legal restrictions on their use. The restricted net assets represent unspent donations required to be used on public safety and impact fees received but not used. The remaining balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental Activities

Governmental activities increased the Town's net assets by \$93,152. Key elements of this increase are as follows:

Changes in Net Assets (In thousands of dollars)

Governmental Activities			
	2012	2011	Increase (Decrease)
Revenue:			
Program revenue:			
Charges for services	\$ 267	\$ 241	\$ 26
Grants and contributions	265	214	51
General revenues:			
Property taxes	3,036	3,016	20
Utility taxes	275	271	4
Intergovernmental	154	173	(19)
Investment earnings	22	31	(9)
Miscellaneous	29	32	(3)
Total revenue	\$ 4,048	\$ 3,978	\$ 70
Expenses:			
Program expenses:			
General government	\$ 833	\$ 776	\$ 57
Public safety	2,381	2,362	19
Physical environment	383	395	(12)
Culture and recreation	348	372	(24)
Interest on long-term debt	10	17	(7)
Total expenses	\$ 3,955	\$ 3,922	\$ 33
Increase(decrease) in net assets	\$ 93	\$ 56	\$ 37
Net assets – October 1	7,062	7,006	56
Net assets – September 30	\$ 7,155	\$ 7,062	\$ 93

Property taxes are the main source of revenues and represent approximately 75 percent of the revenue for governmental activities. Property taxes increased by approximately \$20,000 over the prior year due to receipts from tax sales and delinquent taxes. In order to maintain the same amount in taxes, the millage rate was increased to 6.2 mills to offset the declining property value. Property values continue to fall nationwide as the “housing bubble” ends. The Town only had minimal decline in value thanks to its proximity to the ocean and intracoastal waterway. Charges for services increased by \$26,000 because of increases in construction activity in Town resulting in more building permits. Grants and

contributions increased by approximately \$51,000 due a grant for capital improvements that will increase the energy efficiency of the Town.

General government expenses increased by \$56,000. The Town had greater legal costs this year due to some code enforcement and personnel issues. More time was spent by public works employees on general government tasks than on the community center this year. This increased the costs in general government and is offset by a decrease in culture and recreation.

Expenses for Public Safety represent approximately 60 percent of Governmental activity expenses. Public Safety includes Police, Fire Rescue, Emergency Medical Services, Emergency Disaster, Fire and Building Inspection. Public Safety expenses increased by less than 1% compared to the prior year. Public Safety includes the Police, Fire, Dispatch, Emergency Medical Service and Building departments.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal 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'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.

At September 30, 2012, the Town's governmental funds reported ending fund balances of \$2.125 million, a decrease of \$138,000 in comparison with the prior year. Approximately 61% of ending fund balances (\$1,291,752) constitutes unassigned fund balance, which is available for spending at the government's discretion. The unassigned fund balance is within the General Fund, the chief operating fund of the Town. The Town Commission has assigned portions of fund balance for certain future projects: \$500,000 for future road improvements; \$147,500 for future payouts of compensated absences; and \$9,099 for future sewer system repairs. The non-spendable portion of fund balance is not available for new spending because it has already been spent on inventories and prepaid items. The restricted fund balance within the General Fund is restricted for: \$13,744 for public safety; and \$11,626 for road improvements. The fund balance in the other governmental funds is restricted due to the nature of the revenue which by law may only be spent for specific purposes.

Budgetary Highlights - Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 36). The budget and actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$5.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment.

The Town's investment in capital assets decreased by \$119,000 during the current fiscal year due to depreciation. Purchases during the year totaled \$359,000. Major capital asset events during the current fiscal year included the following:

- The Town's major capital investment this year was funded with a federal grant. The grant was obtained in a joint effort by five local municipalities, including the Town. The funding was for capital improvements that increase the energy efficiency of the Town. The Town purchased new windows and doors for Town Hall (\$33,000) and for the Community Center (\$83,000); new air conditioning units for the Town Hall and the Police Department (\$21,000); and new lighting throughout Town Hall (\$16,000).
- After finally receiving approval from the Department of Environmental Protection, parking lot lighting was purchased and installed at the Community Center parking lot totaling \$87,500. The long delay was over the State's requirements for beach lights impacting the sea turtles that nest on our beaches.
- The Fire Department purchased a SCBA compressor (\$25,000) which will be used to fill the SCBA gear used by our volunteer firefighters.
- The Police Department purchased 12 automatic external defibrators for \$16,000. Now each officer will have an AED in their police car.
- A new phone system was purchased for Town Hall totaling \$14,000. The new system adds voice mail, individual phone numbers and other added features to the Town's system.
- The Town replaced the lift station pump at Lake Drive for \$14,000.
- A new Polaris beach vehicle was purchased for \$9,000.
- The remaining capital outlay consists of a variety of items of smaller scale than those identified herein.

Capital Assets
(In thousands of dollars)

Governmental Activities			
	2012	2011	Increase (Decrease)
Land	\$ 101	\$ 101	\$ -
Construction in progress	-	8	(8)
Buildings and improvements	3,397	3,173	224
Parks and beach improvements	652	644	8
Equipment	1,069	1,015	54
Vehicles	715	706	9
Streets and sewers	3,525	3,499	26
Total capital assets	9,459	9,146	313
Less accumulated depreciation	(4,238)	(3,806)	432
Capital assets, net of depreciation	\$ 5,221	\$ 5,340	\$ (119)

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

Debt Outstanding

The Town added no new debt during the fiscal year. Payments on existing debt reduced the Town's long term liabilities. The following table summarizes the Town's debt as of September 30, 2012.

Outstanding Debt
(In thousands of dollars)

Governmental Activities			
	2012	2011	Increase (Decrease)
Note payable	\$ 207	\$ 409	\$ (202)
Compensated absences	163	175	(12)
Other Post Employment Benefits	15	10	5
Total debt	\$ 385	\$ 594	\$ (209)

Additional information on the Town's debt can be found in Note 6 of this report.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Town's 2013 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals include sustaining the level of services, the responsiveness of the local government to the needs of the public, and the technological operation of the Town government as well as maintaining all of the Town's facilities.

Property taxes are the main source of revenues for governmental activities and represent approximately 75 percent of the General Fund budgeted revenues. The Town's assessed value decreased by approximately \$3 million, or less than 1%. This is the sixth consecutive year of declining property values. It is uncertain whether we have reached the end of this declining trend. The Town Commission kept the millage rate steady at 6.2000 mills. The millage rate meets all of the State imposed requirements. The 2013 budget will provide sufficient revenue to cover expenditures for the upcoming fiscal year. The budget continues to give the Town the ability to provide the expected level of governmental services without increasing its debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department, at the Town of Palm Beach Shores, 247 Edwards Lane, Palm Beach Shores, Florida, 33404.

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Net Assets
September 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,180,575
Investments	1,025,489
Receivables (net)	
Accounts	7,853
Special assessments	42,630
Due from other governments	176,316
Prepaid items	128,112
Inventories	8,524
Capital assets	
Non-depreciable	100,792
Depreciable (net of depreciation)	5,120,000
Total assets	\$ 7,790,291
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 148,288
Accrued payroll	77,170
Accrued interest	1,725
Deferred revenue	22,569
Non-current liabilities	
Due within one year	207,818
Due in more than one year	177,656
Total liabilities	635,226
Net Assets	
Invested in capital assets, net of related debt	5,012,974
Restricted for capital improvements	14,696
Restricted for public safety	13,744
Restricted for road improvement	11,626
Unrestricted	2,102,025
Total net assets	7,155,065
Total liabilities and net assets	\$ 7,790,291

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2012

Function / Program Activities	<u>Program Revenues</u>				Total Governmental Activities
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities					
General government	\$ 832,548	\$ 11,570	\$	\$	\$ (820,978)
Public safety	2,381,358	156,798	39,429	225,821	(1,959,310)
Physical environment	382,542	37,761			(344,781)
Culture recreation	348,179	60,596			(287,583)
Interest on long term debt	10,431				(10,431)
Total governmental activities	<u>3,955,058</u>	<u>266,725</u>	<u>39,429</u>	<u>225,821</u>	<u>(3,423,083)</u>
General revenues					
Property taxes					3,036,401
Utility taxes and franchise fees					275,235
Intergovernmental					153,838
Investment earnings					22,200
Miscellaneous					28,561
Total general revenues					<u>3,516,235</u>
Change in net assets					93,152
Net assets, beginning of year					<u>7,061,913</u>
Net assets, end of year					<u>\$ 7,155,065</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,164,537	\$ 16,038	\$ 1,180,575
Investments	1,025,489		1,025,489
Receivables (net)			
Accounts	7,853		7,853
Special assesments	42,630		42,630
Due from other governments	176,316		176,316
Due from other funds	1,342		1,342
Prepaid items	128,112		128,112
Inventories	8,524		8,524
Total assets	<u>\$ 2,554,803</u>	<u>\$ 16,038</u>	<u>\$ 2,570,841</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 148,288	\$	\$ 148,288
Accrued payroll	77,170		77,170
Due to other funds		1,342	1,342
Deferred revenue	218,988		218,988
Total liabilities	<u>444,446</u>	<u>1,342</u>	<u>445,788</u>
Fund balances			
Nonspendable			
Prepaid items	128,112		128,112
Inventories	8,524		8,524
Restricted			
Capital improvements		14,696	14,696
Public safety	13,744		13,744
Road improvement	11,626		11,626
Assigned			
Road improvement	500,000		500,000
Sewer service	9,099		9,099
Compensated absences	147,500		147,500
Unassigned	1,291,752		1,291,752
Total fund balances	<u>2,110,357</u>	<u>14,696</u>	<u>2,125,053</u>
Total liabilities and fund balances	<u>\$ 2,554,803</u>	<u>\$ 16,038</u>	<u>\$ 2,570,841</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets
September 30, 2012

Fund balances total governmental funds		\$ 2,125,053
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 9,459,108	
Less accumulated depreciation	<u>(4,238,316)</u>	5,220,792
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		196,419
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities at year end consist of:		
Compensated absences	(162,656)	
Other post employment benefits	(15,000)	
Notes payable	(207,818)	
Accrued interest on long-term debt	<u>(1,725)</u>	<u>(387,199)</u>
Net assets of governmental activities		<u>\$ 7,155,065</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Revenues, Expenditures, and Changes
In Fund Balance - Governmental Funds
For the Fiscal Year Ended September 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,311,636	\$	\$ 3,311,636
Special assessments and impact fees	13,273	3,029	16,302
Licenses and permits	133,062		133,062
Intergovernmental	200,414		200,414
Fines and forfeitures	15,401		15,401
Charges for services	118,262		118,262
Interest	22,194	6	22,200
Contributions	64,885		64,885
Miscellaneous	25,532		25,532
Total revenues	<u>3,904,659</u>	<u>3,035</u>	<u>3,907,694</u>
Expenditures			
Current			
General government	797,147		797,147
Public safety	2,242,500		2,242,500
Physical environment	203,508		203,508
Culture and recreation	231,050		231,050
Debt service			
Principal	201,086		201,086
Interest	12,100		12,100
Capital outlay	356,945	1,650	358,595
Total expenditures	<u>4,044,336</u>	<u>1,650</u>	<u>4,045,986</u>
Net change in fund balances	(139,677)	1,385	(138,292)
Fund balances, beginning of year	<u>2,250,034</u>	<u>13,311</u>	<u>2,263,345</u>
Fund balances, end of year	<u>\$ 2,110,357</u>	<u>\$ 14,696</u>	<u>\$ 2,125,053</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2012

Net change in fund balances - total governmental funds \$ (138,292)

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

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

Expenditures for capital assets	\$ 358,595	
Less: current year depreciation	<u>(463,839)</u>	(105,244)
Net book value of capital asset disposals		(13,933)

Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.

Grant revenues not collected in current year	153,789	
Special assessment revenues collected in current year	<u>(13,273)</u>	140,516

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on debt		201,086
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	1,669	
Change in other post employment benefits	(5,160)	
Change in long-term compensated absences	<u>12,510</u>	<u>9,019</u>

Change in net assets		<u>\$ 93,152</u>
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See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 24792, 1947 Laws of Florida. The Town operates under the Commission/Mayor form of government. The Town's major operations include general government, public safety, streets, sanitation, and culture/recreation.

In accordance with Statement 14 of the Government Accounting Standards Board, the underlying concept of the governmental financial reporting entity is that governmental organizations are responsible to elected governing officials; therefore, financial reporting should report the elected officials' accountability for those organizations. Furthermore, the financial statements of the reporting entity should allow users to distinguish between the primary governments and its component units if any, by communicating information about the component units and their relationships with the primary government. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Determining factors of financial accountability include appointment of a voting majority, imposition of will, financial benefit or burden on a primary government, or fiscal dependency. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based upon application of these criteria, the Town of Palm Beach Shores has determined that there are no additional governmental departments, agencies, institutions, commissions, public authorities or other governmental organizations operating within the jurisdiction of the Town that would be required to be included in the Town’s financial statements.

Government-wide and Fund Financial Statements – GASB Statement #34

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

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements – GASB Statement #34 (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental Funds

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

Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenues, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

The Town reports the following major governmental fund:

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

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in demand accounts, certificates of deposit with original maturities of three months or less, and money market.

Investments

Investments include certificates of deposit with original maturities greater than three months. Investments in the Local Government Surplus Funds Trust Fund, a 2a-7-like pool, are carried at amortized cost, which approximates market. A 2a-7-like pool is not registered with the SEC as an investment company, but nevertheless, has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, this pool operates essentially as a money market fund.

Accounts Receivable

Accounts receivable of the General Fund consists of billed receivables for special assessments, sewer services and other miscellaneous services.

Prepaid Items

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

Inventory

Inventory is valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventory are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include plant, property, equipment, and infrastructure assets (e.g. roads, bridges, and sidewalks) are reported in the applicable governmental columns in the governmental-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$750. Capital assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34 and has elected not to report major general infrastructure assets retroactively.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Additions, improvements, and other capital outlay that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation has been provided over the useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	10-40 years
Equipment	5 - 7 years
Vehicles	5-10 years
Streets and sewers	20 years
Parks and beach improvements	20 years

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

All vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Town employees may carry over vacation to the next fiscal year at a rate equal to the maximum time earned during the previous fiscal year. Accumulated vacation is payable to employees upon termination or retirement at the rate of pay on that date. Town employees receive 96 hours of sick time each year. Employees, who reach ten years of service or more, are eligible to receive 50% of their unused sick time up to a 500 hour maximum upon retirement or termination. In addition, any full-time employee who has accrued 960 hours of sick time is eligible to be paid for 40 hours each year. All other employees upon termination do not receive any sick accumulation pay.

Interest Cost

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

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Basic types of interfund transactions include transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund. In addition, interfund transactions include transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them. These transactions are recorded as operating transfers in and out. Lastly, interfund transactions include transfers to close funds.

Deferred Revenues

The government reports deferred revenue on its government-wide statement of net assets and governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 liability for deferred revenue is removed and revenue is recognized.

Net Assets

Equity in the government-wide statement of net assets is displayed in three categories: 1) invested in capital assets net of related debt, 2) restricted, 3) unrestricted. Net assets invested in capital assets net of related debt consist of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by Town legislation or external restrictions by other governments, creditors, or grantors. Unrestricted net assets consist of all net assets that do not meet the definition of either of the other two components.

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

Fund Equity

Fund balance is the difference between assets and liabilities reported in governmental funds. There are five possible components of fund balance:

- Nonspendable fund balance represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. The Town's nonspendable fund balance is for inventories and prepaid items.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

- Restricted fund balance represents amounts that can be spent only for specific purposes stipulated by external providers (e.g. creditors, grantors, contributor, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Restricted fund balance for the Town consists of unspent impact fees that are required to be used for capital improvements, unspent donations required to be spent on public safety, and unspent new local option fuel tax required to be used for capital road improvements..
- Committed fund balance represents amounts that can be used only for the specific purposes determined by formal action of the Town Commission. The Town has no committed funds.
- Assigned fund balance includes spendable fund balance amounts that are intended to be used for specific purposes, as expressed by the Town Commission, that are neither considered restricted or committed.
- Unassigned fund balance is the residual fund balance classification for the general fund.

The Town will first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

Formal budgetary integration is employed as a management control device during the year for the General Fund. All budgets are legally enacted.

An annual appropriated budget for the General Fund is adopted on the cash basis of accounting. For budgeting purposes, current year encumbrances are not treated as expenditures.

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

1. Prior to mid-August, the Town Manager submits to the Town Commission 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. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. The Town Manager is authorized to transfer budgeted amounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the Town Commission, by a legally enacted resolution.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Budgetary Data (Continued)

5. Appropriations along with encumbrances lapse on September 30.
6. Appropriations are controlled at the department level within funds, and expenditures may not legally exceed budgeted appropriation at that level.

Budgeted amounts are as originally adopted, or as amended by appropriate action. During the year, two supplementary appropriations were necessary.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

The tax levy of the Town is established by the Town Commission prior to October 1 of each year, and the Palm Beach County Property Appraiser incorporates the Town's millages into the total tax levy, which includes Palm Beach County and Palm Beach County School Board tax requirements.

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

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. Taxes may be paid less a discount beginning November 1. 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 prior, to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After the sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 - CASH AND INVESTMENTS

Deposits

As of September 30, 2012, the carrying amount of the Town's deposits was \$2,190,497 and the bank balances totaled \$2,227,918. Included in deposits is a \$1,010,022 certificate of deposit with an original maturity greater than three months that is reported as an investment on the financial statements, the Town also had cash on hand of \$100 resulting in a total cash and cash equivalents of \$1,180,575. Deposits are either covered by insurance provided by the Federal Depository Insurance Corporation or are qualified public depositories held in banking institutions approved by the Treasurer of the State of Florida. Under Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or other banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes.

As of September 30, 2012, the Town's deposits included four certificates of deposit with a total fair value of \$1,260,022 that were held in the CDARS® - Certificate of Deposit Account Registry Service ®.

Investments

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

- a. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories.
- d. Direct obligations of the U.S. Treasury.
- e. Deposits that meet the following conditions (CDARS®):
 - The funds are initially deposited in a qualified public depository.
 - The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or saving and loan associations, wherever located, for the account of the unit of local government.
 - The full amount of the principal and accrued interest of each financial deposit instrument is insured by the FDIC.
 - The selected depository acts as custodian for the unit of local government with respect to each financial deposit instrument issued for its account.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

The State Board of Administration is part of the Local Governments Surplus Funds Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Governments Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A, (Local Government Surplus Funds Trust Fund Investment Pool) consisted of all money market appropriate assets. Pool B, (Surplus Funds Trust Fund) consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B. On August 3, 2009 the SBA announced "Florida PRIME" as the highly enhanced version of the SBA's prior Local Government Investment Pool.

At September 30, 2012, Florida PRIME was assigned a "AAA(m)" principal stability fund rating by the Standard and Poor's Ratings. Florida PRIME is considered a SEC 2a7-like fund, thus, the account balance should also be considered its fair value. Fund B is not considered a SEC 2a7-like fund and is not rated by any nationally recognized rating agency.

The weighted average days to maturity (WAM) of Florida PRIME at September 30, 2012 was 39 days. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of Florida PRIME to interest rate changes.

The weighted average life (WAL) of Fund B at September 30, 2012 was 4.08 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates for Fund B as of September 30, 2012.

As of September 30, 2012, the Town of Palm Beach Shores had \$12,712 and \$2,755 invested in Florida PRIME and Fund B, respectively for a total investment value of \$15,467. The fair value of the investment in Fund B is equal to the market value as of September 30, 2012. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2012, the Town held the following deposits that are reported as investments in the balance sheet and statement of net assets:

	<u>Maturity</u>	<u>Fair Value</u>
State Board of Administration Investment Pool:		
Florida PRIME	39 days	\$ 12,712
Fund B	4.08 years	2,755
Certificate of Deposit	74 days	510,022
Certificate of Deposit	88 days	<u>500,000</u>
		<u>\$1,025,489</u>

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill their obligations. The Town’s investment policies limit its investments to high quality investments to control credit risk. At September 30, 2012, Florida PRIME was rated “AAA(m) by Standard and Poor’s Ratings Services. Fund B is not rated by any nationally recognized rating agency.

Interest Rate Risk

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

NOTE 4 – SPECIAL ASSESSMENT

The Town adopted Resolutions 460 and 461 on October 16, 1995, and December 18, 1995, respectively. These resolutions establish the Town’s intention to defray the costs of improvements to the Town’s wastewater collection system through special assessments levied in direct proportion to the benefit received by property owners. Special assessments were calculated on a linear foot basis at the estimated cost of \$53.36 per linear foot as measured along the front property line. Such special assessments were levied following completion of the improvements on July 27, 1997. Property owners were given the option to pay the entire amount of the assessment within 30 days of completion of the improvements or to pay over 20 years in equal annual payments. Property owners electing to pay over 20 years also pay interest on the outstanding balance due at a rate of 4.79% per annum. Outstanding special assessments receivable at September 30, 2012, was \$42,630.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 100,792	\$	\$	\$	\$ 100,792
Construction in progress	7,867	89,868		(97,735)	
Capital assets being depreciated:					
Buildings and improvements	3,172,596	135,334	(8,678)	97,735	3,396,987
Parks and beach improvements	644,415	7,501			651,916
Equipment	1,014,627	91,214	(37,113)		1,068,728
Vehicles	706,223	9,035			715,258
Streets and sewers	3,499,784	25,643			3,525,427
Total at historical cost	<u>9,146,304</u>	<u>358,595</u>	<u>(45,791)</u>		<u>9,459,108</u>
Less accumulated depreciation for:					
Buildings	526,836	85,061	(937)		610,960
Parks and beach improvements	175,057	32,139			207,196
Equipment	493,253	119,118	(30,921)		581,450
Vehicles	579,662	58,317			637,979
Streets and sewers	2,031,527	169,204			2,200,731
Total accumulated depreciation	<u>3,806,335</u>	<u>463,839</u>	<u>(31,858)</u>		<u>4,238,316</u>
Governmental activities capital assets, net	<u>\$5,339,969</u>	<u>\$ (105,244)</u>	<u>\$ (13,933)</u>	<u>\$</u>	<u>\$ 5,220,792</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 5 – CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 25,652
Public safety	142,313
Physical environment	179,034
Culture and recreation	<u>116,840</u>
Total depreciation expense for governmental activities	<u>\$ 463,839</u>

NOTE 6 – LONG-TERM DEBT

Note Payable

In May 2003, the Town borrowed \$1,800,000 from a bank to fund the construction of various capital projects. The note bears interest at 3.32%. Principal and interest payments are due January 1 and July 1 with final maturity on July 1, 2013. Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30: 2013	<u>\$ 207,818</u>	<u>\$ 5,275</u>	<u>\$ 213,093</u>

Changes in Long-Term Liabilities

The following is a summary of changes in the long-term debt during the fiscal year.

	Balance October 1 2011	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2012	Due Within One Year
Note payable	\$ 408,904	\$	\$(201,086)	\$ 207,818	\$ 207,818
Compensated absences	175,166		(12,510)	162,656	
OPEB (see Note 8)	<u>9,840</u>	<u>5,160</u>		<u>15,000</u>	
	<u>\$ 593,910</u>	<u>\$ 5,160</u>	<u>\$(213,596)</u>	<u>\$ 385,474</u>	<u>\$ 207,818</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 7 - FLORIDA RETIREMENT SYSTEM

Florida Retirement System Pension Plan

Plan Description

All full-time employees are eligible to participate in the Florida Retirement System Pension Plan (FRS), a cost sharing, multiple-employer, public retirement system controlled by the State Legislature and administered by the State of Florida Department of Administration, Division of Retirement. The Town began participation in FRS on October 1, 2007. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Benefits are established by Chapter 121, Florida Statutes, and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by 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 FRS. The report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000; or e-mailing Research & Education at rep@dms.MyFlorida.com, or calling toll free at 877-377-1737.

Funding Policy

Participating employers and employees are required to make contributions based upon statewide contribution rates. The contribution rates by job class for the Town's employees at September 30, 2012 are as follows: the employer contribution is 5.18% for Regular employees and 14.90% for Special Risk employees; the employee contribution is 3% for both Regular and Special Risk employees. The employer contribution include a 1.11% HIS rate and a 0.03% administrative fee.

The Town's contributions to the Florida Retirement System Pension Plan for the fiscal year ending September 30, 2012, 2011, and 2010 are as follows:

	<u>Employer</u>	<u>Employee</u>
September 30, 2012	\$ 89,569	\$ 30,561
September 30, 2011	140,559	7,927
September 30, 2010	147,485	

Contributions made in each fiscal year are 100% of the required contribution for the respective fiscal year.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy Program

Plan Description

The Retiree Health Insurance Subsidy Program (HIS) is a cost-sharing multiple-employer defined benefit plan. Benefit provisions are established under Chapter 112.363, Florida Statutes, which may be amended by the Florida Legislature. The HIS benefit is a monthly supplemental payment that Florida Retirement System retirees, eligible terminated Investment Plan members, and other state-administered retirement system retirees may be eligible to receive if they have health insurance coverage – which includes Medicare, TriCare, and insurance coverage provided through the Cover Florida Health Care Access Program. Payment of this benefit is not automatic, it must be applied for and the application approved before payment begins.

The amount of the monthly payment is calculated by multiplying the member's total years of creditable service at retirement (up to a maximum of 30 years) by \$5. The minimum monthly HIS payment is \$30 and the maximum monthly payment is \$150. The HIS payment is included in the same payment as the retiree's monthly retirement benefit if a defined benefit plan retiree.

Funding Policy

The State's current funding policy for the HIS is pay-as-you-go and provides for monthly employer contributions currently set as the legislatively determined rate of 1.11% of annual covered payroll. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. The GASB annual required contribution (ARC) calculated by the consulting actuary in the July 1, 2010 actuarial valuation for the fiscal year ending June 30, 2010 is 1.28% of active payroll (including DROP payroll). The State's funding policy requires a contribution rate that is different than the GASB required ARC, which is an accounting disclosure. To the extent the contribution rate required to fund the HIS Program is different than the computed ARC, adjustments in the Net Pension Obligation (NPO) will occur from year to year.

The Town's contributions to the Retiree Health Insurance Subsidy Program for the fiscal year ending September 30, 2012, 2011, and 2010 were \$14,751, \$13,986, and \$13,925 respectively.

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the HIS. The report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000; or e-mailing Research & Education at rep@dms.MyFlorida.com, or calling toll free at 877-377-1737.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued)

Florida Retirement System Investment Plan

Plan Description

The Florida Retirement System Investment Plan is a defined contribution retirement plan qualified under Section 401(a) of the Internal Revenue Code. The Florida Legislature enacted the Plan during the 2000 legislative session, and amendments to the Plan can only be made by an act of the Florida Legislature. The Plan is administered by the State Board of Administration of Florida.

Funding Policy.

Participating employers are required to make contributions based upon statewide contributions rates. The contribution rates by job class for the Town's employees at September 30, 2012, were as follows: the employer contribution is 5.18% for Regular employees and 14.90% for Special Risk employees; the employee contribution is 3% for both Regular and Special Risk employees. The employer contribution includes a 1.11% HIS rate and a 0.03% administrative fee.

The Town's total payroll for the year ended September 30, 2012 was \$1,630,319 and payroll for employees covered by the Plan was \$308,633. The Town and the covered employees made the required contributions of \$26,184 and \$9,259, respectively.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Retirees of the Town pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other post employment benefits (OPEB) under GASB 45.

Plan Description

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

TOWN OF PALM BEACH SHORES, FLORIDA

Notes to the Financial Statements

September 30, 2012

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Required contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Annual required contribution	\$ 5,146
Interest on Net OPEB obligation	394
Adjustment to annual required contribution	<u>(380)</u>
Annual OPEB cost	5,160
Contributions made	<u>5,160</u>
Increase in net OPEB obligation	9,840
Net OPEB obligation October 1, 2011	<u>9,840</u>
Net OPEB obligation September 30, 2012	<u>\$ 15,000</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/10	\$ 4,844	0.00%	\$ 4,844
09/30/11	\$ 4,996	0.00%	\$ 9,840
09/30/12	\$ 5,160	0.00%	\$15,000

Funded Status

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

Actuarial valuation date	09/30/10
Actuarial accrued liability	\$ 20,322
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 20,322
Funded ratio	0.0%
Covered payroll	\$1,358,549
UAAL as a percentage of covered payroll	1.50%

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented. The Town has not contributed assets to the plan at this time.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions

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

Actuarial valuation date	9/30/10
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	18 years
Asset valuation method	Unfunded
Actual assumptions:	
Investment rate of return	4%
Healthcare cost trend	8% for 2010 decreasing to 4.7% in 2019

NOTE 9 – COMMITMENTS

Water Management Services

On December 3, 2007, the Town entered into an agreement with Waste Management, Inc. of Florida (Waste Management) to collect and dispose of all solid waste, recyclable material, and vegetative waste. The contract ended on September 30, 2012, the Town renewed the agreement for an additional five years. The contract ends on September 30, 2017. Waste Management will be paid monthly based on the rate schedule in the contract and the actual number of customers/units. The contract also provides for an annual adjustment to fees based on the Consumer Price Index (CPI), with a maximum 3% increase in fees. Charges from Waste Management for the year ended September 30, 2012, totaled \$153,413.

Landscape Services

On September 30, 2011, the Town entered into an agreement with Bass Property Maintenance, Inc. for lawn maintenance services. The agreement is for a period of five years beginning on October 1, 2011 and ending on September 30, 2016. The Town will pay Bass Property Maintenance, Inc. \$32,795 per year for each of the five years. There is one five year extension adjusted by the CPI that can be agreed to by both parties. Payments to Bass Property Maintenance, Inc. for the year ended September 30, 2012 totaled \$32,795.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 9 – COMMITMENTS (Continued)

Fire Services, EMS Services, and Emergency Transport Services

In January 2010, the Town entered into an agreement with the City of Riviera Beach for the provision of backup fire services, EMS services, and emergency transport services. The agreement is for a period of five years beginning March 1, 2010. Under the terms of the agreement, the City will provide EMS, ALS and BLS transport services to the Town twenty-four hours per day through utilization of City personnel and vehicles. The City will also supplement the volunteer fire service of the Town twenty-four hours per day through utilization of City personnel and vehicles. The minimum fees for the first year are \$202,873 for the EMS and emergency transport services and \$86,945 for the fire services. The fees are payable in two equal semi-annual installments due March 1 and September 1. For subsequent years, the fees will be increased 3% annually, effective on March 1. The fire services fee shall entitle the Town to forty-eight fire responses lasting no longer than two hours. Incidents lasting longer than two hours and any responses over the maximum of forty-eight shall incur additional fees. Payments to the City for the year ended September 30, 2012 totaled \$307,468.

NOTE 10 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town is also covered by Florida Statutes under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of municipalities to individual claims of \$100,000/\$200,000 for all claims relating to the same accident. There have been no significant reductions in insurance coverage in the prior year. No settlements exceeded insurance coverage for the past three years.

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2012

	General Fund			Variance With
	Original Adopted Budget	Final Revised Budget	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 3,179,678	\$ 3,179,678	\$ 3,311,636	\$ 131,958
Special assessments and impact fees	11,800	11,800	13,273	1,473
Licenses and permits	81,400	81,400	133,062	51,662
Intergovernmental	178,434	349,387	200,414	(148,973)
Fines and forfeitures	7,550	7,550	15,401	7,851
Charges for services	131,000	131,000	118,262	(12,738)
Interest	25,250	25,250	22,194	(3,056)
Contributions		65,500	64,885	(615)
Miscellaneous	7,500	7,500	25,532	18,032
Total revenues	<u>3,622,612</u>	<u>3,859,065</u>	<u>3,904,659</u>	<u>45,594</u>
Expenditures				
Current				
General government	776,321	819,131	797,147	21,984
Public safety	2,222,175	2,257,150	2,242,500	14,650
Physical environment	219,900	220,900	203,508	17,392
Culture and recreation	302,894	279,384	231,050	48,334
Debt service				
Principal	201,087	201,087	201,086	1
Interest	12,100	12,100	12,100	
Capital outlay	73,700	416,343	356,945	59,398
Contingency	80,000	24,725		24,725
Total expenditures	<u>3,888,177</u>	<u>4,230,820</u>	<u>4,044,336</u>	<u>186,484</u>
Net change in fund balance	<u>\$ (265,565)</u>	<u>\$ (371,755)</u>	(139,677)	<u>\$ 232,078</u>
Fund balance, beginning of year			<u>2,250,034</u>	
Fund balance, end of year			<u>\$ 2,110,357</u>	

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2012

Note 1 - Basis of Accounting

Generally accepted accounting principles (GAAP) serve as the budgetary basis of accounting.

Note 2 - Stewardship, Compliance, and Accountability

There were no departments that had an excess of expenditures over appropriations.

TOWN OF PALM BEACH SHORES, FLORIDA
Required Supplemental Information
Schedule of Funding Progress
Other Post Employment Benefits
For the Fiscal Year Ended September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as % of Covered Payroll
09/30/10	\$	\$ 20,322	\$ 20,322	0.0%	\$ 1,358,549	1.50%

The schedule of funding progress presented above will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented. The Town has not contributed assets to the plan at this time.

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Revenues - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 2,912,300	\$ 3,036,401	\$ 124,101
Franchise fees and utility taxes	267,378	275,235	7,857
Total taxes	<u>3,179,678</u>	<u>3,311,636</u>	<u>131,958</u>
Special assessments	11,800	13,273	1,473
Licenses and permits			
Special permits	2,000	540	(1,460)
Business tax receipts	12,200	13,248	1,048
Building permits	65,000	117,636	52,636
Development fees	2,200	1,638	(562)
Total licenses and permits	<u>81,400</u>	<u>133,062</u>	<u>51,662</u>
Intergovernmental revenues			
Half-cent sales tax	74,418	74,689	271
Local option gas tax	37,553	36,126	(1,427)
State revenue sharing	27,018	26,365	(653)
Alcoholic beverage licenses	3,900	3,964	64
Recycling revenue sharing	5,000	5,113	113
County occupational licenses	7,000	7,291	291
Grants	194,498	46,576	(147,922)
Other intergovernmental revenues	290	290	290
Total intergovernmental revenues	<u>349,387</u>	<u>200,414</u>	<u>(148,973)</u>
Fines and forfeitures			
Fines and forfeitures	7,250	15,182	7,932
Police education	300	219	(81)
Total fines and forfeitures	<u>7,550</u>	<u>15,401</u>	<u>7,851</u>
Charges for services			
Sewer service	40,600	37,761	(2,839)
Beach parking	7,000	8,060	1,060
Community center rental	71,000	52,536	(18,464)
Special duty police services	10,000	8,335	(1,665)
Miscellaneous services	2,400	11,570	9,170
Total charges for services	<u>131,000</u>	<u>118,262</u>	<u>(12,738)</u>
Interest	25,250	22,194	(3,056)
Contributions from private sources	65,500	64,885	(615)
Miscellaneous			
Insurance reimbursement		2,429	2,429
Other	7,500	23,103	15,603
Total miscellaneous	<u>7,500</u>	<u>25,532</u>	<u>18,032</u>
Total revenues	<u>3,859,065</u>	<u>3,904,659</u>	<u>45,594</u>
Other financing sources			
Appropriated fund balance	371,755		(371,755)
Total revenues and other financing sources	<u>\$ 4,230,820</u>	<u>\$ 3,904,659</u>	<u>\$ (326,161)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
Fiscal General Fund
For the Fiscal Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 17,160	\$ 14,974	\$ 2,186
Finance and administrative			
Personal services	351,189	331,597	19,592
Operating expenses	85,918	96,120	(10,202)
Capital outlay	13,000	14,356	(1,356)
Total finance and administrative	450,107	442,073	8,034
Legal counsel			
Operating expenses	99,300	99,209	91
Planning			
Operating expenses	2,500		2,500
Public works			
Personal services	147,934	145,605	2,329
Operating expenses	22,130	20,644	1,486
Capital outlay	170,953	154,480	16,473
Total public works	341,017	320,729	20,288
Risk management			
Operating expenses	93,000	88,998	4,002
Total general government	1,003,084	965,983	37,101
Public safety			
Police			
Personal services	1,073,250	1,115,099	(41,849)
Operating expenses	208,075	175,633	32,442
Capital outlay	36,200	26,787	9,413
Total police	1,317,525	1,317,519	6
911 dispatch			
Personal services	372,066	369,738	2,328
Operating expenses	14,950	8,925	6,025
Total 911 dispatch	387,016	378,663	8,353
Fire			
Personal services	112,903	106,035	6,868
Operating expenses	154,389	147,445	6,944
Capital outlay	46,000	28,732	17,268
Total fire	313,292	282,212	31,080
Emergency medical services - contract			
Operating expenses	212,617	212,615	2

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Building department			
Operating expenses	\$ 108,900	\$ 107,010	\$ 1,890
Total public safety	<u>2,339,350</u>	<u>2,298,019</u>	<u>41,331</u>
Physical environment			
Garbage/solid waste disposal			
Operating expenses	<u>164,700</u>	<u>164,561</u>	<u>139</u>
Lift station sewer service			
Operating	16,600	14,258	2,342
Capital outlay	<u>24,000</u>	<u>17,243</u>	<u>6,757</u>
Total lift station sewer service	<u>40,600</u>	<u>31,501</u>	<u>9,099</u>
Streets/storm sewers			
Operating	39,600	24,689	14,911
Capital outlay	<u>13,500</u>	<u>8,400</u>	<u>5,100</u>
Total streets/storm sewers	<u>53,100</u>	<u>33,089</u>	<u>20,011</u>
Total physical environment	<u>258,400</u>	<u>229,151</u>	<u>29,249</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	<u>104,920</u>	<u>83,090</u>	<u>21,830</u>
Beach facilities			
Personal services	79,264	76,905	2,359
Operating expenses	22,000	9,703	12,297
Capital outlay	<u>9,500</u>	<u>16,535</u>	<u>(7,035)</u>
Total beach facilities	<u>110,764</u>	<u>103,143</u>	<u>7,621</u>
Community center			
Personal services	36,225	37,452	(1,227)
Operating expenses	36,975	23,900	13,075
Capital outlay	<u>103,190</u>	<u>90,412</u>	<u>12,778</u>
Total community center	<u>176,390</u>	<u>151,764</u>	<u>24,626</u>
Total cultural/recreation	<u>392,074</u>	<u>337,997</u>	<u>54,077</u>
Nondepartmentalized			
Contingency	24,725		24,725
Debt Service	<u>213,187</u>	<u>213,186</u>	<u>1</u>
Total nondepartmentalized	<u>237,912</u>	<u>213,186</u>	<u>24,726</u>
Total expenditures	<u>\$ 4,230,820</u>	<u>\$ 4,044,336</u>	<u>\$ 186,484</u>



NOWLEN, HOLT & MINER, P.A.

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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*

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The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town of Palm Beach Shores, Florida's basic financial statements and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Palm Beach Shores, Florida, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Palm Beach Shores, Florida's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Palm Beach Shores, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Palm Beach Shores, Florida's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. 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.

2009-01 Segregation of Duties

There is insufficient segregation of duties in the accounting department. The basic premise is that no employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Management Response

The small size of the Town staff limits the options we have to segregate duties. However, we believe that the checks and balances in place restrict the opportunity for fraud to occur.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Palm Beach Shores, Florida, in a separate letter dated January 22, 2013.

The Town of Palm Beach Shores, Florida's response to the finding identified in our audit is also described above. We did not audit Town of Palm Beach Shores, Florida's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Commission, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
January 22, 2013



NOWLEN, HOLT & MINER, P.A.

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

The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores

We have audited the basic financial statements of the Town of Palm Beach Shores, Florida, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated January 22, 2013.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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*. Disclosures in that report, which is dated January 22, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

The Rule 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.

The following prior year comment was in the prior two years report and still applies in the current year.

Finding: 2009-01 Segregation of Duties

Condition: There is insufficient segregation of duties in the accounting department. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Management Response: The small size of the Town staff limits the options we have to segregate duties. However, we believe that the checks and balances in place restrict the opportunity for fraud to occur.

The following prior year comment still applies in the current year.

Finding: 2011-01 Purchasing Policy

Condition: The Town has written policies and procedures in place for cash disbursements. Although we noted improvement from the prior year, we noted a few instances where the procedures were not being followed. We recommend the Town follow their written policies and procedures for cash disbursements and consistently apply them.

Management's Response: The Town's written policies and procedures for cash disbursements are a critical part of its internal control procedures. We understand the importance of following these policies and procedures in order to have the appropriate support for expenditures and will be sure they are followed by all employees.

CURRENT YEAR COMMENTS

Investment of Public Funds

Rules of the Auditor General require our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town of Palm Beach Shores, Florida complied with Section 218.415, Florida Statutes.

Current Year Recommendations

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Violations of Laws, Regulations, Contracts and Grant Provisions or Abuse

Rules of the Auditor General require that we address violations of 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 more than inconsequential. In connection with our audit for the fiscal year ended September 30, 2012, we did not have any such findings.

Matters Inconsequential to the Financial Statements

Rules of the Auditor General provide that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit for the fiscal year ended September 30, 2012, we did not have any such findings.

Oversight Unit and Component Units

Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 31276, Laws of Florida 1955. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units related to the Town.

Consideration of Financial Emergency Criteria

Rules of the Auditor General require a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Palm Beach Shores, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes, during the fiscal year ended September 30, 2012.

Annual Financial Report

Rules of the Auditor General require that we determine whether the annual financial report for the Town of Palm Beach Shores, Florida for the fiscal year ended September 30, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in substantial agreement.

Financial Condition Assessment Procedures

Rules of the Auditor General require that we apply financial condition assessment procedures. It is management's responsibility to monitor the Town of Palm Beach Shores, 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. In connection with our audit for the fiscal year ended September 30, 2012, we applied financial condition assessment procedures. The results of our procedures did not disclose any matters that are required to be reported.

Excess of Expenditures Over Appropriations

There were no departments that had expenditures in excess of appropriations for the fiscal year ended September 30, 2012.

Response to Management Letter

We did not audit management's response to the Management Letter presented herein and express no opinion on it.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
January 22, 2013