

TOWN OF PALM BEACH SHORES, FLORIDA
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2010

TOWN OF PALM BEACH SHORES, FLORIDA
SEPTEMBER 30, 2010

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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

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, as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Palm Beach Shores' 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 as of September 30, 2010, and the respective changes in financial position thereof 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 18, 2011, on our consideration of the Town of Palm Beach Shores' 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 9 and the required supplementary information on pages 34 through 36 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' financial statements as a whole. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of the Town. The 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 statement 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 & Mimer, P.A.

West Palm Beach, Florida
January 18, 2011

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, 2010. 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, 2010:

- The Town's net assets increased by \$24,368 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2010 by \$7,006,149 (net assets). Of this amount, \$2,122,765 (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 \$3,805,038, a decrease of 8.5% from the prior year. The expenses for governmental activities were \$3,780,670, an increase of 3.4% over the prior year.
- The General Fund unreserved undesignated fund balance at September 30, 2010 was \$1,456,538 or 40% 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 10 and 11) 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 12) 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 37-39.

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 16) 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 \$7,006,149 as of September 30, 2010.

Net Assets (In thousands of dollars)

Governmental Activities			
	2010	2009	Increase (Decrease)
Assets:			
Current and other assets	\$ 2,454	\$ 2,486	\$ (32)
Capital assets	5,432	5,703	(271)
Total assets	\$ 7,886	\$ 8,189	\$ (303)
Liabilities:			
Long-term debt outstanding	\$ 731	\$ 914	\$ (183)
Other liabilities	149	293	(144)
Total liabilities	\$ 880	\$ 1,207	\$ (327)
Net Assets:			
Invested in capital assets, net of related debt	\$ 4,828	\$ 4,905	\$ (77)
Restricted	55	31	24
Unrestricted	2,123	2,046	77
Total net assets	\$ 7,006	\$ 6,982	\$ 24

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 \$24,368. Key elements of this increase are as follows:

Changes in Net Assets (In thousands of dollars)			
Governmental Activities			
	2010	2009	Increase (Decrease)
Revenue:			
Program revenue:			
Charges for services	\$ 198	\$ 171	\$ 27
Grants and contributions	166	117	49
General revenues:			
Property taxes	2,968	3,340	(372)
Utility taxes	253	277	(24)
Intergovernmental	169	162	7
Investment earnings	21	62	(41)
Miscellaneous	29	31	(2)
Total revenue	\$ 3,804	\$ 4,160	\$ (356)
Expenses:			
Program expenses:			
General government	\$ 783	\$ 737	\$ 46
Public safety	2,237	2,160	77
Physical environment	368	384	(16)
Culture and recreation	369	345	24
Interest on long-term debt	23	31	(8)
Total expenses	\$ 3,780	\$ 3,657	\$ 123
Increase in net assets	\$ 24	\$ 503	\$ (479)
Net assets – October 1	6,982	6,479	503
Net assets – September 30	\$ 7,006	\$ 6,982	\$ 24

Property taxes are the main source of revenues and represent approximately 78 percent of the revenue for governmental activities. Property taxes decreased by approximately \$372,000 as the result of decreased property value and maintaining the millage at 5.742 mills. Property values have fallen nationwide as the “housing bubble” ends. The Town only had minimal decline thanks to the proximity to the ocean and intracoastal waterway. Investment earnings were down by \$41,000 due to lower interest rates. Charges for services increased by \$27,000 because of increased fees to rent the community center and more special duty police services.

Expenses for Public Safety represent approximately 59 percent of Governmental activity expenses. Public Safety includes Police, Fire Rescue, Emergency Medical Services, Emergency Disaster, and Fire and Building Inspection. Public Safety expenses increased by 3.5% compared to the prior year.

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, unreserved 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, 2010, the Town's governmental funds reported ending fund balances of \$2.24 million, an increase of \$127,000 in comparison with the prior year. The reason for this increase was because some of the Community Center funds were not spent (\$106,000) and budget savings in various town departments. Approximately 92% of ending fund balances (\$2,063,056) constitutes unreserved fund balance, which is available for spending at the government's discretion. The Town Commission has designated portions of the unreserved fund balance for certain future projects: \$106,518 is designated for the completion of the community center. The Town Commission has set aside funds for future road improvements in the amount of \$500,000. The unreserved fund balance is within the General Fund, the chief operating fund of the Town. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed to inventories and prepaid items.

Budgetary Highlights - Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 34). 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, 2010 amounted to \$5.4 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 \$271,000 during the current fiscal year. Purchases during the year totaled \$127,000. Major capital asset events during the current fiscal year included the following:

- The Dispatch office is being completely renovated. The project was not complete as of September 30, 2010. The Town spent approximately \$57,000 on the project during this fiscal year. A new dispatch console was funded with a grant from Palm Beach County (\$22,000). Impact fees and donations funded the remainder of the project.
- The piping and valves for the lift station at Lake Drive were replaced at a cost of \$24,000.
- A new sound system was purchased for the Town Hall meeting room in the amount of \$6,750.
- A new Town website was designed and launched at a cost of \$3,400.
- 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			
	2010	2009	Increase (Decrease)
Land	\$ 101	\$ 101	\$ -
Construction in progress	46	3	43
Buildings and improvements	3,119	3,116	3
Parks and beach improvements	637	637	-
Equipment	762	721	41
Vehicles	718	721	(3)
Streets and sewers	3,488	3,465	23
Total capital assets	8,871	8,764	107
Less accumulated depreciation	(3,439)	(3,061)	(378)
Capital assets, net of depreciation	\$ 5,432	\$ 5,703	\$ (271)

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

Debt Outstanding

The Town has recorded a liability for Other Post Employment Benefits, as required by GASB Statement No. 45. The Town added no other 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, 2010.

Outstanding Debt
(In thousands of dollars)

Governmental Activities			
	2010	2009	Increase (Decrease)
Note payable	\$ 603	\$ 792	\$ (189)
Capital lease	-	7	(7)
Compensated absences	122	115	7
Other Post Employment Benefits	5	-	5
Total debt	\$ 730	\$ 914	\$ (184)

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 2011 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals include enhancing the level of services, increasing the responsiveness of the local government to the needs of the public, improving the technological operation of the Town government, and enhancing the Town's recreational facilities.

Property taxes are the main source of revenues for governmental activities and represent approximately 80 percent of the General Fund budgeted revenues. The assessed value of the Town decreased by approximately \$28 million, or 5%. This declining trend is expected to continue into the next budget year as commercial property values are expected to be adjusted. In order to keep revenue steady, the Town increased its millage rate to 5.9990 mills from 5.742 mills in the previous year. The 2011 millage rate meets all of the State imposed requirements. This will provide sufficient revenue to cover expenditures for the fiscal year 2011 budget. 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, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,181,655
Investments	4,214
Receivables (net)	
Accounts	7,728
Special assessments	68,262
Due from other governments	68,011
Prepaid items	120,757
Inventories	3,749
Capital assets	
Non-depreciable	146,788
Depreciable (net of depreciation)	<u>5,284,863</u>
Total assets	<u><u>\$ 7,886,027</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 70,822
Accrued payroll	51,640
Accrued interest	5,009
Deferred revenue	21,773
Non-current liabilities	
Due within one year	194,573
Due in more than one year	<u>536,061</u>
Total liabilities	<u>879,878</u>
Net Assets	
Invested in capital assets, net of related debt	4,828,175
Restricted for capital improvements	9,471
Restricted for public safety	45,738
Unrestricted	<u>2,122,765</u>
Total net assets	<u>7,006,149</u>
Total liabilities and net assets	<u><u>\$ 7,886,027</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2010

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 783,518	\$ 6,155	\$	\$	\$ (777,363)
Public safety	2,236,778	113,876	28,154	135,636	(1,959,112)
Physical environment	367,681	24,465			(343,216)
Culture recreation	369,111	53,799		2,500	(312,812)
Interest on long term debt	23,582				(23,582)
Total governmental activities	3,780,670	198,295	28,154	138,136	(3,416,085)
General revenues					
Property taxes					2,968,277
Utility taxes and franchise fees					253,439
Intergovernmental					169,213
Investment earnings					21,406
Miscellaneous					28,118
Total general revenues					3,440,453
Change in net assets					24,368
Net assets, beginning of year					6,981,781
Net assets, end of year					<u><u>\$ 7,006,149</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2010

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,172,184	\$ 9,471	\$ 2,181,655
Investments	4,214		4,214
Receivables (net)			
Accounts	7,728		7,728
Special assessments	68,262		68,262
Due from other governments	68,011		68,011
Prepaid items	120,757		120,757
Inventories	3,749		3,749
Total assets	\$ 2,444,905	\$ 9,471	\$ 2,454,376
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 70,822	\$	\$ 70,822
Accrued payroll	51,640		51,640
Deferred revenue	90,035		90,035
Total liabilities	212,497		212,497
Fund balances			
Reserved for:			
Prepaid items	120,757		120,757
Inventories	3,749		3,749
Public safety	44,846		44,846
Capital improvements		9,471	9,471
Unreserved:			
Designated for road improvement	500,000		500,000
Designated for community center	106,518		106,518
Undesignated	1,456,538		1,456,538
Total fund balances	2,232,408	9,471	2,241,879
Total liabilities and fund balances	\$ 2,444,905	\$ 9,471	\$ 2,454,376

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, 2010

Fund balances total governmental funds		\$ 2,241,879
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	\$ 8,870,745	
Less accumulated depreciation	<u>(3,439,094)</u>	5,431,651
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		68,262
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	(122,313)	
Other post employment benefits	(4,844)	
Notes payable	(603,477)	
Accrued interest on long-term debt	<u>(5,009)</u>	<u>(735,643)</u>
Net assets of governmental activities		<u>\$ 7,006,149</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, 2010

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,221,716	\$	\$ 3,221,716
Special assessments and impact fees	15,620	3,623	19,243
Licenses and permits	91,245		91,245
Intergovernmental	220,500		220,500
Fines and forfeitures	12,789		12,789
Charges for services	94,262		94,262
Interest	21,381	25	21,406
Contributions	75,353		75,353
Miscellaneous	24,494		24,494
Total revenues	<u>3,777,360</u>	<u>3,648</u>	<u>3,781,008</u>
Expenditures			
Current			
General government	753,633		753,633
Public safety	2,105,837		2,105,837
Physical environment	190,600		190,600
Culture and recreation	255,686		255,686
Debt service			
Principal	195,311		195,311
Interest	25,421		25,421
Capital outlay	115,072	12,801	127,873
Total expenditures	<u>3,641,560</u>	<u>12,801</u>	<u>3,654,361</u>
Net change in fund balances	135,800	(9,153)	126,647
Fund balances, beginning of year	<u>2,096,608</u>	<u>18,624</u>	<u>2,115,232</u>
Fund balances, end of year	<u>\$ 2,232,408</u>	<u>\$ 9,471</u>	<u>\$ 2,241,879</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, 2010

Net change in fund balances - total governmental funds \$ 126,647

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	\$ 127,873	
Donated assets	39,650	
Less: current year depreciation	<u>(433,653)</u>	(266,130)
 Loss on the sale of fixed assets		 (5,582)

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

Special assessment revenues collected in current year	<u>(15,620)</u>	(15,620)
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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	<u>195,311</u>	195,311
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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	1,839	
Change in other post employment benefits	(4,844)	
Change in long-term compensated absences	<u>(7,253)</u>	<u>(10,258)</u>

Change in net assets		<u><u>\$ 24,368</u></u>
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See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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, even though the latter are excluded from the government-wide financial statements. 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, 2010

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 are reported at fair value, which is determined by using various third party pricing sources.

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, 2010

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, 2010

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 received 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.

Fund Equity

The Town has established certain reservations and designations of governmental fund balances. Reserves represent those portions of fund balances not considered as available for future appropriation or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Reservations and designations of fund balances are reported on the balance sheet for governmental funds.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

The following is a list of all reserves used by the Town and a description of each:

- Reserved for prepaid items – Represents certain payments made in advance indicating that these funds are not available spendable resources.
- Reserved for inventories – An account used to indicate that a portion of the General Fund’s fund balance is segregated since these items do not represent available spendable resources.
- Reserved for capital improvements – Funds received as impact fees which are required to be spent on capital improvements.

Designations of portions of the fund balances in governmental funds are established to indicate management’s tentative plans for financial resources in a future period. At September 30, 2010, fund balance was designated as follows:

- Designated for road improvements – Designated for expenditures to replace Town roads.
- Designated for community center – Designated for expenditures related to the completion of the community center.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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

Budgetary Data (Continued)

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

1. Prior to mid-August, the Town Administrator 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 Administrator 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.
5. Appropriations along with encumbrances lapse on September 30.
6. Appropriations are usually 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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

Property Taxes (Continued)

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

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. 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.

NOTE 3 - CASH AND INVESTMENTS

Deposits

As of September 30, 2010, the carrying amounts of the Town's deposits was \$2,170,370 and the bank balances totaled \$2,220,485. The Town also had cash on hand of \$100 resulting in a total cash carrying amount of \$2,170,470. 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. Therefore, the Town's entire bank balance of \$2,220,485 is insured either by Federal depository insurance or is collateralized with securities pursuant to the Florida Security for Public Deposits Act. The Town's deposits at year end are considered insured for custodial credit risk purposes.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments

Florida statutes authorize the Town to invest in the Local Government Surplus Funds Trust Fund administered by the State Treasurer, negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government, interest-bearing time deposits in financial institutions located in Florida and organized under Federal or Florida laws, obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank or its district banks, or obligations guaranteed by the Government National Mortgage Association, and obligations of the Federal National Mortgage Association.

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, 2010, 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, 2010 was 52 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

The weighted average life (WAL) of Fund B at September 30, 2010 was 7.49 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, 2010.

As of September 30, 2010, the Town of Palm Beach Shores had \$11,185 and \$4,214 invested in Florida PRIME and Fund B, respectively for a total investment value of \$15,399. The fair value of the investment in Fund B is equal to the market value as of September 30, 2010. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

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, 2010, 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, 2010, was \$68,262.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 100,792	\$	\$	\$ 100,792
Construction in progress	3,302	42,694		45,996
Capital assets being depreciated:				
Buildings and improvements	3,116,344	2,608		3,118,952
Parks and beach improvements	636,616			636,616
Equipment	721,067	58,875	(17,426)	762,516
Vehicles	721,024	39,650	(42,461)	718,213
Streets and sewers	<u>3,465,304</u>	<u>23,696</u>	<u>(1,340)</u>	<u>3,487,660</u>
Total at historical cost	<u>8,764,449</u>	<u>167,523</u>	<u>(61,227)</u>	<u>8,870,745</u>
Less accumulated depreciation for:				
Buildings	362,009	81,775		443,784
Parks and beach improvements	111,683	31,831		143,514
Equipment	352,015	87,581	(14,333)	425,263
Vehicles	537,273	65,588	(41,044)	561,817
Streets and sewers	<u>1,698,106</u>	<u>166,878</u>	<u>(268)</u>	<u>1,864,716</u>
Total accumulated depreciation	<u>3,061,086</u>	<u>433,653</u>	<u>(55,645)</u>	<u>3,439,094</u>
Governmental activities capital assets, net	<u>\$ 5,703,363</u>	<u>\$ (266,130)</u>	<u>\$ (5,582)</u>	<u>\$ 5,431,651</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 5 – CAPITAL ASSETS (Continued)

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

Governmental activities:

General government	\$ 13,953
Public works	7,266
Police department	95,388
Fire department	26,838
Physical environment-streets and sewers	177,081
Culture and recreation	<u>113,127</u>
Total depreciation expense for governmental activities	<u>\$ 433,653</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:			
2011	\$ 194,573	\$ 18,703	\$ 213,276
2012	201,086	12,100	213,186
2013	<u>207,818</u>	<u>5,275</u>	<u>213,093</u>
	<u>\$ 603,477</u>	<u>\$ 36,078</u>	<u>\$639,555</u>

Capital Lease

The Town has entered into lease agreements for financing the acquisition of police vehicles, police radios and a fire truck. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The cost of assets purchased under capital lease arrangements as of September 30, 2010 was \$23,596 with related accumulated depreciation of \$12,191. The lease was paid in full during the year.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 6 – LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

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

	Balance October 1 <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2010</u>	Due Within <u>One Year</u>
Note payable	\$ 791,748	\$	\$(188,271)	\$ 603,477	\$ 194,573
Capital leases	7,040		(7,040)		
Compensated absences	115,060	7,253		122,313	
OPEB (see Note 8)	<u> </u>	<u>4,844</u>	<u> </u>	<u>4,844</u>	<u> </u>
	<u>\$ 913,848</u>	<u>\$ 12,097</u>	<u>\$(195,311)</u>	<u>\$ 730,634</u>	<u>\$ 194,573</u>

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued)

Funding Policy

Participating employers are required to make contributions based upon statewide contribution rates. The contribution rates by job class for the Town's employees at September 30, 2010, were as follows: regular employees 10.77% and special risk employees 23.25%.

The Town's combined contributions to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program for the fiscal year ending September 30, 2010 was \$212,104, which is 100% of the required contribution for the fiscal year.

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, 2008 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

NOTE 7 - FLORIDA RETIREMENT SYSTEM (Continued)

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.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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

Annual OPEB Cost and Net OPEB Obligation (Continued)

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
Normal cost	\$ 3,688
Interest on normal cost	-
Amortization	1,156
Interest on amortization	-
Annual OPEB cost	<u>4,844</u>
Contributions made	-
Increase in net OPEB obligation	<u>4,844</u>
Net OPEB obligation October 1, 2009	-
Net OPEB obligation September 30, 2010	<u>\$ 4,844</u>

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/08	N/A	N/A	N/A
09/30/09	N/A	N/A	N/A
09/30/10	\$ 4,844	0.00%	\$ 4,844

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	\$1,469,866
UAAL as a percentage of covered payroll	13.8%

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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

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.

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	19 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 terminates on September 30, 2012. 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, 2010, totaled \$148,287.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2010

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, 2010 totaled \$289,819.

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, 2010

	General Fund			Variance With
	Original Adopted Budget	Final Revised Budget	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 3,201,963	\$ 3,201,963	\$ 3,221,716	\$ 19,753
Special assessments and impact fees	12,600	12,600	15,620	3,020
Licenses and permits	75,250	75,250	91,245	15,995
Intergovernmental	185,498	209,291	220,500	11,209
Fines and forfeitures	10,300	10,300	12,789	2,489
Charges for services	84,320	84,320	94,262	9,942
Interest	45,900	45,900	21,381	(24,519)
Contributions		71,000	75,353	4,353
Miscellaneous	4,000	4,000	24,494	20,494
Total revenues	<u>3,619,831</u>	<u>3,714,624</u>	<u>3,777,360</u>	<u>62,736</u>
Expenditures				
Current				
General government	785,644	806,094	753,633	52,461
Public safety	2,062,303	2,134,803	2,105,837	28,966
Physical environment	214,610	214,610	190,600	24,010
Culture and recreation	317,291	317,291	255,686	61,605
Debt service				
Principal	195,311	195,311	195,311	
Interest	25,533	25,533	25,421	112
Capital outlay	25,000	266,642	115,072	151,570
Contingency	149,139	37,689		37,689
Total expenditures	<u>3,774,831</u>	<u>3,997,973</u>	<u>3,641,560</u>	<u>356,413</u>
Net change in fund balance	<u>\$ (155,000)</u>	<u>\$ (283,349)</u>	135,800	<u>\$ 419,149</u>
Fund balance, beginning of year			<u>2,096,608</u>	
Fund balance, end of year			<u>\$ 2,232,408</u>	

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2010

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, 2010

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%	\$ 1,469,866	13.8%

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, 2010

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 2,950,000	\$ 2,968,277	\$ 18,277
Franchise fees and utility taxes	251,963	253,439	1,476
Total taxes	<u>3,201,963</u>	<u>3,221,716</u>	<u>19,753</u>
Special assessments	<u>12,600</u>	<u>15,620</u>	<u>3,020</u>
Licenses and permits			
Special permits	2,000	1,932	(68)
Occupational licenses	12,250	12,301	51
Building permits	60,000	76,012	16,012
Development fees	1,000	1,000	
Total licenses and permits	<u>75,250</u>	<u>91,245</u>	<u>15,995</u>
Intergovernmental revenues			
Half-cent sales tax	84,003	87,070	3,067
Local option gas tax	36,501	37,876	1,375
State revenue sharing	25,794	26,965	1,171
Alcoholic beverage licenses	3,000	3,964	964
County occupational licenses	7,200	13,171	5,971
Grants	52,793	51,288	(1,505)
Other intergovernmental revenues		166	166
Total intergovernmental revenues	<u>209,291</u>	<u>220,500</u>	<u>11,209</u>
Fines and forfeitures			
Fines and forfeitures	9,850	10,017	167
Confiscated property sale		2,418	2,418
Police education	450	354	(96)
Total fines and forfeitures	<u>10,300</u>	<u>12,789</u>	<u>2,489</u>
Charges for services			
Sewer service	24,000	24,465	465
Beach parking	6,000	8,650	2,650
Community center rental	50,000	45,150	(4,850)
Special duty police services		9,842	9,842
Miscellaneous services	4,320	6,155	1,835
Total charges for services	<u>84,320</u>	<u>94,262</u>	<u>9,942</u>
Interest	<u>45,900</u>	<u>21,381</u>	<u>(24,519)</u>
Contributions from private sources	<u>71,000</u>	<u>75,353</u>	<u>4,353</u>
Miscellaneous			
Sale of surplus property		200	200
Insurance reimbursement		16,243	16,243
Other	4,000	8,051	4,051
Total miscellaneous	<u>4,000</u>	<u>24,494</u>	<u>20,494</u>
Total revenues	<u>3,714,624</u>	<u>3,777,360</u>	<u>62,736</u>
Other financing sources			
Appropriated fund balance	<u>283,349</u>		<u>(283,349)</u>
Total revenues and other financing sources	<u>\$ 3,997,973</u>	<u>\$ 3,777,360</u>	<u>\$ (220,613)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
Fiscal General Fund
For the Fiscal Year Ended September 30, 2010

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 14,510	\$ 11,772	\$ 2,738
Finance and administrative			
Personal services	360,485	342,640	17,845
Operating expenses	80,616	79,707	909
Capital outlay	20,000	12,019	7,981
Total finance and administrative	461,101	434,366	26,735
Legal counsel			
Operating expenses	100,000	75,845	24,155
Planning			
Operating expenses	14,550	14,500	50
Public works			
Personal services	124,643	116,485	8,158
Operating expenses	18,790	20,638	(1,848)
Capital outlay		5,580	(5,580)
Total public works	143,433	142,703	730
Risk management			
Operating expenses	92,500	92,046	454
Total general government	826,094	771,232	54,862
Public safety			
Police			
Personal services	1,038,997	1,058,291	(19,294)
Operating expenses	170,762	145,060	25,702
Capital outlay	34,455	40,770	(6,315)
Debt service	7,480	7,480	
Total police	1,251,694	1,251,601	93
911 dispatch			
Personal services	369,279	367,689	1,590
Operating expenses	13,722	11,676	2,046
Capital outlay	22,293	22,292	1
Total 911 dispatch	405,294	401,657	3,637
Fire			
Personal services	76,794	81,749	(4,955)
Operating expenses	129,011	134,523	(5,512)
Capital outlay	52,001		52,001
Total fire	257,806	216,272	41,534
Emergency medical services - contract			
Operating expenses	209,169	200,407	8,762

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2010

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Community policing			
Personal services	\$ 2,369	\$ 1,789	\$ 580
Operating expenses	6,450	6,655	(205)
Total community policing	<u>8,819</u>	<u>8,444</u>	<u>375</u>
Building department			
Operating expenses	<u>118,250</u>	<u>97,998</u>	<u>20,252</u>
Total public safety	<u>2,251,032</u>	<u>2,176,379</u>	<u>74,653</u>
Physical environment			
Garbage/solid waste disposal			
Operating expenses	<u>156,200</u>	<u>154,307</u>	<u>1,893</u>
Lift station sewer service			
Operating	17,400	14,181	3,219
Capital outlay	25,000	23,696	1,304
Total lift station sewer service	<u>42,400</u>	<u>37,877</u>	<u>4,523</u>
Streets/storm sewers			
Operating	<u>41,010</u>	<u>22,112</u>	<u>18,898</u>
Total physical environment	<u>239,610</u>	<u>214,296</u>	<u>25,314</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	<u>102,000</u>	<u>92,519</u>	<u>9,481</u>
Beach facilities			
Personal services	75,964	80,413	(4,449)
Operating expenses	21,375	14,380	6,995
Total beach facilities	<u>97,339</u>	<u>94,793</u>	<u>2,546</u>
Community center			
Personal services	89,067	33,090	55,977
Operating expenses	28,885	35,284	(6,399)
Capital outlay	112,893	10,715	102,178
Total community center	<u>230,845</u>	<u>79,089</u>	<u>151,756</u>
Total cultural/recreation	<u>430,184</u>	<u>266,401</u>	<u>163,783</u>
Nondepartmentalized			
Contingency	37,689		37,689
Debt Service	213,364	213,252	112
Total nondepartmentalized	<u>251,053</u>	<u>213,252</u>	<u>37,801</u>
Total expenditures	<u>\$ 3,997,973</u>	<u>\$ 3,641,560</u>	<u>\$ 356,413</u>



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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*

BELLE GLADE OFFICE
333 S.E. 2nd STREET
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TELEPHONE (561) 898-5612
FAX (561) 898-8248

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

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, as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 18, 2011. 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

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

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'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 also noted certain additional matters that we have reported to the management of the Town of Palm Beach Shores in a separate letter dated January 18, 2011.

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

This report is intended solely for the information and use of the governing board and management and is not intended to be and should not be used by anyone other than those specified parties.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
January 18, 2011



NOWLEN, HOLT & MINER, P.A.

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MANAGEMENT LETTER

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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, as of and for the year ended September 30, 2010, and have issued our report thereon dated January 18, 2011.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report in 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*. Disclosures in that report, which is dated January 18, 2011, should be considered in assessing the results of our audit.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which require that we address certain compliance and other matters in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters.

In planning and performing our audit of the basic financial statements of the Town of Palm Beach Shores, for the year ended September 30, 2010, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control. While our purpose was not to provide an opinion on internal control, certain matters came to our attention that we want to report to you. We do not wish to imply that they cover every possible weakness or strength. Nevertheless, we do think they deserve your careful evaluation. The status of these comments will be reviewed during the next audit engagement. We have already discussed these comments with the Town's management and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY

Segregation of Duties

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's 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.

CURRENT YEAR COMMENTS

Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2010, there were no departments with expenditures in excess of appropriations contrary to Section 166.241(2) Florida Statutes.

Oversight Unit and Component Units

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

As required by the Rules of the Auditor General, our audit included a review of whether or not the Town has met one or more of the conditions described in Section 218.503(1), Florida Statutes. The results of our procedures did not disclose that the Town of Palm Beach Shores has met any of the conditions described in Section 218.503(1) during the year ended September 30, 2010.

Financial Condition Assessment Procedures

As required by Rules of the Auditor General we applied financial condition assessment procedures for the Town of Palm Beach Shores. It is management's responsibility to monitor the Town'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 management. The results of our procedures did not disclose any matters that are required to be reported.

Annual Financial Report

In connection with our audit, we reviewed the Annual Financial Report of Units of Local Government filed by the Town of Palm Beach Shores with the Florida Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes, for the year ended September 30, 2010. We noted that the amounts reported in the Annual Financial Report were in substantial agreement with the annual financial audit report for the year ended September 30, 2010.

Investment of Public Funds

As required by the Rules of the Auditor General, our audit included a review of the Town's compliance with Section 218.415, Florida Statutes. The results of our procedures did not disclose any instances of noncompliance with Section 218.415 Florida Statutes by the Town of Palm Beach Shores for the year ended September 30, 2010. However, our audit does not provide a legal determination on the Town's compliance with this requirement.

Other Current Year Comments

The rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters: (1) violations of laws, rules, regulations, and contractual provisions or abuse, that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud or illegal acts discovered by, or that come to the attention of the auditor. Our audit as of and for the year ended September 30, 2010 did not disclose any such items that are required to be reported under Chapter 10.550 Rules of the Auditor General and are not already addressed in our management letter.

The Town's responses to the findings identified in our audit are described above. We did not audit Town's responses and, accordingly, we express no opinion on them.

We appreciate the courtesy and cooperation shown us by your officials and employees.

If you have any questions or wish to discuss these comments further, we would be pleased to meet with you at your convenience.

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 grant awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
January 18, 2011