

TOWN OF PALM BEACH SHORES, FLORIDA
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2011

TOWN OF PALM BEACH SHORES, FLORIDA
SEPTEMBER 30, 2011

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1- 2
Management's Discussion and Analysis (required supplementary information)	3 -9
 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	15
Notes to the Financial Statements	16-33
 Required Supplemental Information Other Than Management's Discussion and Analysis	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	34
Notes to the Budgetary Required Supplementary Information – General Fund	35
Schedule of Funding Progress – Other Post Employment Benefits	36
 Other Supplemental Information	
Schedule of Departmental Revenues – Budget to Actual – General Fund	37
Schedule of Departmental Expenditures – Budget to Actual – General Fund	38-39
 Other Reports	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	40-41
Management Letter in Accordance with the Rules of the Auditor General of the State of Florida	42-45



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE
215 FIFTH STREET, SUITE 200
POST OFFICE BOX 347
WEST PALM BEACH, FLORIDA 33402-0347
TELEPHONE (561) 659-3060
FAX (561) 835-0628
WWW.NHMCIPA.COM

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM B. MINER, CPA
ROBERT W. HENDRICK, JR., CPA
JANET R. BARBOVICICH, CPA

KATHLEEN A. MINER, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, CFPP, CPA
KARA D. PETERSON, CPA
EDWARD T. HOLT, JR., CPA

INDEPENDENT AUDITOR'S REPORT

BELLE GLADE OFFICE
333 S.E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 898-5612
FAX (561) 898-8248

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, 2011, 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, 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, 2011, 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 February 3, 2012, 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 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, 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 & Miner, P.A.

West Palm Beach, Florida
February 3, 2012

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, 2011. 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, 2011:

- The Town's net assets increased by \$55,764 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2011 by \$7,061,913 (net assets). Of this amount, \$2,117,536 (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 \$3,977,513, an increase of 4.5% from the prior year. The expenses for governmental activities were \$3,921,749, an increase of 3.7% over the prior year.
- The General Fund unassigned fund balance at September 30, 2011 was \$1,507,146 or 38% 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 \$7,061,913 as of September 30, 2011.

Net Assets (In thousands of dollars)

Governmental Activities			
	2011	2010	Increase (Decrease)
Assets:			
Current and other assets	\$ 2,509	\$ 2,454	\$ 55
Capital assets	5,340	5,432	(92)
Total assets	\$ 7,849	\$ 7,886	\$ (37)
Liabilities:			
Long-term debt outstanding	\$ 594	\$ 731	\$ (137)
Other liabilities	193	149	44
Total liabilities	\$ 787	\$ 880	\$ (93)
Net Assets:			
Invested in capital assets, net of related debt	\$ 4,931	\$ 4,828	\$ 103
Restricted	13	55	(42)
Unrestricted	2,118	2,123	(5)
Total net assets	\$ 7,062	\$ 7,006	\$ 56

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 \$55,764. Key elements of this increase are as follows:

Changes in Net Assets (In thousands of dollars)

Governmental Activities			
	2011	2010	Increase (Decrease)
Revenue:			
Program revenue:			
Charges for services	\$ 241	\$ 198	\$ 43
Grants and contributions	214	166	48
General revenues:			
Property taxes	3,016	2,968	48
Utility taxes	271	253	18
Intergovernmental	173	169	4
Investment earnings	31	21	10
Miscellaneous	32	29	3
Total revenue	\$ 3,978	\$ 3,804	\$ 174
Expenses:			
Program expenses:			
General government	\$ 776	\$ 783	\$ (7)
Public safety	2,362	2,237	125
Physical environment	395	368	27
Culture and recreation	372	369	3
Interest on long-term debt	17	23	(6)
Total expenses	\$ 3,922	\$ 3,780	\$ 142
Increase in net assets	\$ 56	\$ 24	\$ 32
Net assets – October 1	7,006	6,982	24
Net assets – September 30	\$ 7,062	\$ 7,006	\$ 56

Property taxes are the main source of revenues and represent approximately 76 percent of the revenue for governmental activities. Property taxes increased by approximately \$48,000 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 5.9990 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 \$43,000 because of increased fees for community center rental and for sewer service. Grants and contributions increased by approximately \$48,000 due to generous contributions to the Town's Police and Fire departments.

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 5.6% compared to the prior year. Public Safety includes the Police, Fire, Dispatch, Emergency Medical Service and Building departments. The increase in Public Safety is mainly in operating costs in the Police and Fire departments. Both departments used donations to purchase small equipment, not considered capital. Additionally, the cost of gasoline increased and the cost of a maintenance agreement for the new Police cameras.

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, 2011, the Town's governmental funds reported ending fund balances of \$2.26 million, an increase of \$21,000 in comparison with the prior year. Approximately 67% of ending fund balances (\$1,507,146) 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: \$93,190 is assigned for the completion of the community center and \$500,000 for future road improvements. 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 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 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, 2011 amounted to \$5.3 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 \$92,000 during the current fiscal year due to depreciation. Purchases during the year totaled \$350,000. Major capital asset events during the current fiscal year included the following:

- A new automobile license plate reading camera was purchased for \$48,000 and installed at Park Avenue. All three streets entering the Town now have coverage with these cameras providing a valuable tool for the Police Department.
- New mobile cameras were purchased and installed in each police car totaling \$56,000. Mobile cameras can produce valuable evidence. These cameras were purchased with a generous donation from a Town resident.
- A new Chevrolet Tahoe was purchased for the Fire Chief in the amount of \$34,000. This vehicle is equipped to serve as a mobile command station in the event of a fire or other disaster.
- \$65,000 worth of new SCBA apparatus were purchased for the volunteer firefighters using donated funds.
- An acoustics design was created and installed in the community center for approximately \$18,000. The Palm Beach Shores Property Owners' Association donated funds to pay for the acoustics.
- 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			
	2011	2010	Increase (Decrease)
Land	\$ 101	\$ 101	\$ -
Construction in progress	8	46	(38)
Buildings and improvements	3,173	3,119	54
Parks and beach improvements	644	637	7
Equipment	1,015	762	253
Vehicles	706	718	(12)
Streets and sewers	3,499	3,488	11
Total capital assets	9,146	8,871	275
Less accumulated depreciation	(3,806)	(3,439)	(367)
Capital assets, net of depreciation	\$ 5,340	\$ 5,432	\$ (92)

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, 2011.

Outstanding Debt
(In thousands of dollars)

Governmental Activities			
	2011	2010	Increase (Decrease)
Note payable	\$ 409	\$ 603	\$ (194)
Compensated absences	175	122	53
Other Post Employment Benefits	10	5	5
Total debt	\$ 594	\$ 730	\$ (136)

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 2012 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 77 percent of the General Fund budgeted revenues. The assessed value of the Town decreased by approximately \$26 million, or 5%. It is uncertain whether this declining trend will continue into the next budget year. In order to keep revenue steady, the Town Commission increased its millage rate to 6.2000 mills from 5.9990 mills in the previous year. The millage rate meets all of the State imposed requirements. This 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, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,749,433
Investments	520,415
Receivables (net)	
Accounts	6,772
Special assessments	55,903
Due from other governments	27,205
Prepaid items	144,798
Inventories	4,900
Capital assets	
Non-depreciable	108,659
Depreciable (net of depreciation)	<u>5,231,310</u>
Total assets	<u><u>\$ 7,849,395</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 109,508
Accrued payroll	55,925
Accrued interest	3,394
Deferred revenue	24,745
Non-current liabilities	
Due within one year	201,086
Due in more than one year	<u>392,824</u>
Total liabilities	<u>787,482</u>
Net Assets	
Invested in capital assets, net of related debt	4,931,065
Restricted for capital improvements	13,311
Unrestricted	<u>2,117,537</u>
Total net assets	<u>7,061,913</u>
Total liabilities and net assets	<u><u>\$ 7,849,395</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2011

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 775,871	\$ 8,801	\$	\$	\$ (767,070)
Public safety	2,362,099	121,643	27,035	169,355	(2,044,066)
Physical environment	394,602	38,764			(355,838)
Culture recreation	372,188	71,737		16,904	(283,547)
Interest on long term debt	16,989				(16,989)
Total governmental activities	3,921,749	240,945	27,035	186,259	(3,467,510)
General revenues					
Property taxes					3,015,410
Utility taxes and franchise fees					271,088
Intergovernmental					173,388
Investment earnings					31,106
Miscellaneous					32,282
Total general revenues					3,523,274
Change in net assets					55,764
Net assets, beginning of year					7,006,149
Net assets, end of year					<u><u>\$ 7,061,913</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,739,953	\$ 9,480	\$ 1,749,433
Investments	520,415		520,415
Receivables (net)			
Accounts	6,772		6,772
Special assesments	55,903		55,903
Due from other governments	27,205		27,205
Due from other funds		3,831	3,831
Prepaid items	144,798		144,798
Inventories	4,900		4,900
Total assets	<u>\$ 2,499,946</u>	<u>\$ 13,311</u>	<u>\$ 2,513,257</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 109,508	\$	\$ 109,508
Accrued payroll	55,925		55,925
Due to other funds	3,831		3,831
Deferred revenue	80,648		80,648
Total liabilities	<u>249,912</u>		<u>249,912</u>
Fund balances			
Nonspendable			
Prepaid items	144,798		144,798
Inventories	4,900		4,900
Restricted			
Capital improvements		13,311	13,311
Assigned			
Road improvement	500,000		500,000
Community center	93,190		93,190
Unassigned			
Total fund balances	<u>2,250,034</u>	<u>13,311</u>	<u>2,263,345</u>
Total liabilities and fund balances	<u>\$ 2,499,946</u>	<u>\$ 13,311</u>	<u>\$ 2,513,257</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, 2011

Fund balances total governmental funds		\$ 2,263,345
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	\$ 9,146,304	
Less accumulated depreciation	<u>(3,806,335)</u>	5,339,969
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		55,903
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	(175,166)	
Other post employment benefits	(9,840)	
Notes payable	(408,904)	
Accrued interest on long-term debt	<u>(3,394)</u>	<u>(597,304)</u>
Net assets of governmental activities		<u>\$ 7,061,913</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, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,286,498	\$	\$ 3,286,498
Special assessments and impact fees	12,359	7,142	19,501
Licenses and permits	101,297		101,297
Intergovernmental	200,423		200,423
Fines and forfeitures	16,056		16,056
Charges for services	123,592		123,592
Interest	31,097	9	31,106
Contributions	186,259		186,259
Miscellaneous	25,140		25,140
Total revenues	<u>3,982,721</u>	<u>7,151</u>	<u>3,989,872</u>
Expenditures			
Current			
General government	733,460		733,460
Public safety	2,197,993		2,197,993
Physical environment	217,588		217,588
Culture and recreation	256,530		256,530
Debt service			
Principal	194,573		194,573
Interest	18,604		18,604
Capital outlay	346,347	3,311	349,658
Total expenditures	<u>3,965,095</u>	<u>3,311</u>	<u>3,968,406</u>
Net change in fund balances	17,626	3,840	21,466
Fund balances, beginning of year	<u>2,232,408</u>	<u>9,471</u>	<u>2,241,879</u>
Fund balances, end of year	<u>\$ 2,250,034</u>	<u>\$ 13,311</u>	<u>\$ 2,263,345</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, 2011

Net change in fund balances - total governmental funds \$ 21,466

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	\$ 349,658	
Less: current year depreciation	<u>(436,818)</u>	(87,160)

Net book value of capital asset disposals		(4,522)
---	--	---------

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		(12,359)
---	--	----------

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		194,573
----------------------------	--	---------

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	1,615	
Change in other post employment benefits	(4,996)	
Change in long-term compensated absences	<u>(52,853)</u>	<u>(56,234)</u>

Change in net assets		<u>\$ 55,764</u>
----------------------	--	------------------

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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.

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, 2011

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.
- 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. The Town has assigned fund balance for future road improvements (\$500,000) and for completion of the community center (\$93,190).
- 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 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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, three 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, 2011

NOTE 3 - CASH AND INVESTMENTS

Deposits

As of September 30, 2011, the carrying amount of the Town's deposits was \$2,254,319 and the bank balances totaled \$2,315,949. Included in deposits is a \$504,986 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 \$1,749,433. 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, 2011, the Town's deposits included four certificates of deposit with a total fair value of \$1,512,616 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, 2011

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, 2011, 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, 2011 was 38 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, 2011 was 4.82 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, 2011.

As of September 30, 2011, the Town of Palm Beach Shores had \$12,082 and \$3,347 invested in Florida PRIME and Fund B, respectively for a total investment value of \$15,429. The fair value of the investment in Fund B is equal to the market value as of September 30, 2011. 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, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2011, 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	38 days	\$ 12,082
Fund B	4.82 years	3,347
Certificate of Deposit	76 days	<u>504,986</u>
		<u>\$ 520,415</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, 2011, 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, 2011, was \$55,903.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, 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	45,996	74,481		(112,610)	7,867
Capital assets being depreciated:					
Buildings and improvements	3,118,952	11,954		41,690	3,172,596
Parks and beach improvements	636,616	8,879	(1,080)		644,415
Equipment	762,516	204,918	(23,727)	70,920	1,014,627
Vehicles	718,213	37,302	(49,292)		706,223
Streets and sewers	3,487,660	12,124			3,499,784
Total at historical cost	<u>8,870,745</u>	<u>349,658</u>	<u>(74,099)</u>		<u>9,146,304</u>
Less accumulated depreciation for:					
Buildings	443,784	83,052			526,836
Parks and beach improvements	143,514	32,029	(486)		175,057
Equipment	425,263	88,025	(20,035)		493,253
Vehicles	561,817	66,901	(49,056)		579,662
Streets and sewers	1,864,716	166,811			2,031,527
Total accumulated depreciation	<u>3,439,094</u>	<u>436,818</u>	<u>(69,577)</u>		<u>3,806,335</u>
Governmental activities capital assets, net	<u>\$5,431,651</u>	<u>\$ (87,160)</u>	<u>\$ (4,522)</u>	<u>\$</u>	<u>\$ 5,339,969</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

NOTE 5 – CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 22,146
Public safety	122,289
Physical environment	177,014
Culture and recreation	<u>115,369</u>
Total depreciation expense for governmental activities	<u>\$ 436,818</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:			
2012	\$ 201,086	\$ 12,100	\$ 213,186
2013	<u>207,818</u>	<u>5,275</u>	<u>213,093</u>
	<u>\$ 408,904</u>	<u>\$ 17,375</u>	<u>\$ 426,279</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 2010	Additions	Deletions	Balance September 30, 2011	Due Within One Year
Note payable	\$ 603,477	\$	\$(194,573)	\$ 408,904	\$ 201,086
Compensated absences	122,313	52,853		175,166	
OPEB (see Note 8)	<u>4,844</u>	<u>4,996</u>		<u>9,840</u>	
	<u>\$ 730,634</u>	<u>\$ 57,849</u>	<u>\$(194,573)</u>	<u>\$ 593,910</u>	<u>\$ 201,086</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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, beginning July 1, 2011, 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, 2011 are as follows: the employer contribution is 4.91% for Regular employees and 14.10% 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 combined contributions to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program for the fiscal year ending September 30, 2011, 2010, and 2009 are as follows:

	<u>Employer</u>	<u>Employee</u>
September 30, 2011	\$ 196,808	\$ 10,467
September 30, 2010	212,104	
September 30, 2009	199,243	

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, 2011

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 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)

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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

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.

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	194
Amortization	1,301
Adjustment to annual required contribution	(187)
Interest on amortization	
Annual OPEB cost	<u>4,996</u>
Contributions made	
Increase in net OPEB obligation	<u>4,996</u>
Net OPEB obligation October 1, 2010	<u>4,844</u>
Net OPEB obligation September 30, 2011	<u><u>\$ 9,840</u></u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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
09/30/09	N/A	N/A	N/A
09/30/10	\$ 4,844	0.00%	\$ 4,844
09/30/11	\$ 4,996	0.00%	\$ 9,840

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	\$1,230,623
UAAL as a percentage of covered payroll	1.65%

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 two years are 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, 2011

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 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, 2011, totaled \$148,759.

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. The Town did not make any payments to Bass Property Maintenance, Inc. as of September 30, 2011.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2011

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, 2011 totaled \$294,889.

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.

NOTE 11– ACCOUNTING CHANGE

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Town implemented this standard in fiscal year 2011. Changes to the government fund type fund balance reporting are reflected in the financial statements and schedules. Related disclosures are included in Note 1.

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, 2011

	General Fund			Variance With
	Original Adopted Budget	Final Revised Budget	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 3,177,762	\$ 3,177,762	\$ 3,286,498	\$ 108,736
Special assessments and impact fees	12,600	12,600	12,359	(241)
Licenses and permits	73,600	73,600	101,297	27,697
Intergovernmental	261,286	439,386	200,423	(238,963)
Fines and forfeitures	9,390	9,390	16,056	6,666
Charges for services	97,900	97,900	123,592	25,692
Interest	18,985	18,985	31,097	12,112
Contributions		184,244	186,259	2,015
Miscellaneous	4,000	6,500	25,140	18,640
Total revenues	<u>3,655,523</u>	<u>4,020,367</u>	<u>3,982,721</u>	<u>(37,646)</u>
Expenditures				
Current				
General government	782,318	787,218	733,460	53,758
Public safety	2,208,514	2,211,014	2,197,993	13,021
Physical environment	223,200	237,313	217,588	19,725
Culture and recreation	302,871	302,871	256,530	46,341
Debt service				
Principal	194,575	194,575	194,573	2
Interest	18,705	18,705	18,604	101
Capital outlay	85,618	717,509	346,347	371,162
Contingency	100,000	36,917		36,917
Total expenditures	<u>3,915,801</u>	<u>4,506,122</u>	<u>3,965,095</u>	<u>541,027</u>
Net change in fund balance	<u>\$ (260,278)</u>	<u>\$ (485,755)</u>	17,626	<u>\$ 503,381</u>
Fund balance, beginning of year			<u>2,232,408</u>	
Fund balance, end of year			<u>\$ 2,250,034</u>	

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2011

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, 2011

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%	\$ 1,230,623	1.65%

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, 2011

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 2,942,200	\$ 3,015,410	\$ 73,210
Franchise fees and utility taxes	235,562	271,088	35,526
Total taxes	<u>3,177,762</u>	<u>3,286,498</u>	<u>108,736</u>
Special assessments	<u>12,600</u>	<u>12,359</u>	<u>(241)</u>
Licenses and permits			
Special permits	2,000	350	(1,650)
Business tax receipts	10,850	16,155	5,305
Building permits	60,000	83,742	23,742
Development fees	750	1,050	300
Total licenses and permits	<u>73,600</u>	<u>101,297</u>	<u>27,697</u>
Intergovernmental revenues			
Half-cent sales tax	93,617	89,655	(3,962)
Local option gas tax	39,475	37,036	(2,439)
State revenue sharing	27,715	27,964	249
Alcoholic beverage licenses	3,900	3,964	64
Recycling revenue sharing	4,000	8,064	4,064
County occupational licenses	7,200	6,588	(612)
Grants	263,479	27,035	(236,444)
Other intergovernmental revenues		117	117
Total intergovernmental revenues	<u>439,386</u>	<u>200,423</u>	<u>(238,963)</u>
Fines and forfeitures			
Fines and forfeitures	9,050	15,789	6,739
Police education	340	267	(73)
Total fines and forfeitures	<u>9,390</u>	<u>16,056</u>	<u>6,666</u>
Charges for services			
Sewer service	24,000	38,764	14,764
Beach parking	6,000	8,040	2,040
Community center rental	50,000	63,697	13,697
Special duty police services	13,500	4,290	(9,210)
Miscellaneous services	4,400	8,801	4,401
Total charges for services	<u>97,900</u>	<u>123,592</u>	<u>25,692</u>
Interest	<u>18,985</u>	<u>31,097</u>	<u>12,112</u>
Contributions from private sources	<u>184,244</u>	<u>186,259</u>	<u>2,015</u>
Miscellaneous			
Sale of surplus property	2,500	2,902	402
Insurance reimbursement		2,683	2,683
Other	4,000	19,555	15,555
Total miscellaneous	<u>6,500</u>	<u>25,140</u>	<u>18,640</u>
Total revenues	<u>4,020,367</u>	<u>3,982,721</u>	<u>(37,646)</u>
Other financing sources			
Appropriated fund balance	<u>485,755</u>		<u>(485,755)</u>
Total revenues and other financing sources	<u>\$ 4,506,122</u>	<u>\$ 3,982,721</u>	<u>\$ (523,401)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
Fiscal General Fund
For the Fiscal Year Ended September 30, 2011

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 17,510	\$ 14,850	\$ 2,660
Capital outlay	2,500	2,194	306
Total legislative	<u>20,010</u>	<u>17,044</u>	<u>2,966</u>
Finance and administrative			
Personal services	363,501	345,273	18,228
Operating expenses	83,343	72,467	10,876
Capital outlay	15,276	13,816	1,460
Total finance and administrative	<u>462,120</u>	<u>431,556</u>	<u>30,564</u>
Legal counsel			
Operating expenses	<u>90,000</u>	<u>77,588</u>	<u>12,412</u>
Planning			
Operating expenses	<u>3,500</u>	<u>968</u>	<u>2,532</u>
Public works			
Personal services	118,034	105,439	12,595
Operating expenses	18,330	29,540	(11,210)
Capital outlay	178,100	10,543	167,557
Total public works	<u>314,464</u>	<u>145,522</u>	<u>168,942</u>
Risk management			
Operating expenses	<u>93,000</u>	<u>87,335</u>	<u>5,665</u>
Total general government	<u>983,094</u>	<u>760,013</u>	<u>223,081</u>
Public safety			
Police			
Personal services	1,073,360	1,079,391	(6,031)
Operating expenses	175,380	163,301	12,079
Capital outlay	144,559	140,935	3,624
Total police	<u>1,393,299</u>	<u>1,383,627</u>	<u>9,672</u>
911 dispatch			
Personal services	378,513	356,495	22,018
Operating expenses	15,880	18,139	(2,259)
Capital outlay	51,318	1,200	50,118
Total 911 dispatch	<u>445,711</u>	<u>375,834</u>	<u>69,877</u>
Fire			
Personal services	86,288	78,120	8,168
Operating expenses	156,249	191,251	(35,002)
Capital outlay	173,794	129,735	44,059
Total fire	<u>416,331</u>	<u>399,106</u>	<u>17,225</u>
Emergency medical services - contract			
Operating expenses	<u>206,425</u>	<u>206,419</u>	<u>6</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2011

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Community policing			
Personal services	\$ 2,369	\$ 55	\$ 2,314
Operating expenses	6,650	6,230	420
Total community policing	<u>9,019</u>	<u>6,285</u>	<u>2,734</u>
Building department			
Operating expenses	109,900	98,592	11,308
Total building department	<u>109,900</u>	<u>98,592</u>	<u>11,308</u>
Total public safety	<u>2,580,685</u>	<u>2,469,863</u>	<u>110,822</u>
Physical environment			
Garbage/solid waste disposal			
Operating expenses	160,500	159,211	1,289
Lift station sewer service			
Operating	15,650	13,273	2,377
Capital outlay	24,000	12,124	11,876
Total lift station sewer service	<u>39,650</u>	<u>25,397</u>	<u>14,253</u>
Streets/storm sewers			
Operating	61,163	45,104	16,059
Total physical environment	<u>261,313</u>	<u>229,712</u>	<u>31,601</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	103,000	97,508	5,492
Capital outlay	4,540	5,568	(1,028)
Total parks/parkway	<u>107,540</u>	<u>103,076</u>	<u>4,464</u>
Beach facilities			
Personal services	79,264	76,992	2,272
Operating expenses	20,215	16,897	3,318
Total beach facilities	<u>99,479</u>	<u>93,889</u>	<u>5,590</u>
Community center			
Personal services	66,754	29,688	37,066
Operating expenses	33,638	35,445	(1,807)
Capital outlay	123,422	30,232	93,190
Total community center	<u>223,814</u>	<u>95,365</u>	<u>128,449</u>
Total cultural/recreation	<u>430,833</u>	<u>292,330</u>	<u>138,503</u>
Nondepartmentalized			
Contingency	36,917		36,917
Debt Service	213,280	213,177	103
Total nondepartmentalized	<u>250,197</u>	<u>213,177</u>	<u>37,020</u>
Total expenditures	<u>\$ 4,506,122</u>	<u>\$ 3,965,095</u>	<u>\$ 541,027</u>



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE
215 FIFTH STREET, SUITE 200
POST OFFICE BOX 347
WEST PALM BEACH, FLORIDA 33402-0347
TELEPHONE (561) 659-3060
FAX (561) 835-0628
WWW.NHMCIPA.COM

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM S. MINER, CPA
ROBERT W. HENDRICK, JR., CPA
JANET R. BARBOVICH, CPA

KATHLEEN A. MINER, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, CFPP, CPA
KARA D. PETERSON, CPA
EDWARD T. HOLT, JR., CPA

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
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 898-5612
FAX (561) 898-8248

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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 3, 2012. 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, Florida, in a separate letter dated February 3, 2012.

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
February 3, 2012



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE
215 FIFTH STREET, SUITE 200
POST OFFICE BOX 347
WEST PALM BEACH, FLORIDA 33402-0347
TELEPHONE (561) 659-3060
FAX (561) 835-0628
WWW.NHMCOPA.COM

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM S. MINER, CPA
ROBERT W. HENDRICK, JR., CPA
JANET R. BARBOVICH, CPA

KATHLEEN A. MINER, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, CFPP, CPA
KARA D. PETERSON, CPA
EDWARD T. HOLT, JR., CPA

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

BELLE GLADE OFFICE
333 S.E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
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 basic financial statements of the Town of Palm Beach Shores, Florida, as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated February 3, 2012.

We conducted our audit in accordance with U.S. 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 on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated February 3, 2012, 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: 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.

CURRENT YEAR COMMENTS

Investment of Public Funds

Rules of the Auditor General require our audit to include a review of the provisions of Section 215.415, 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 noted the following item.

Finding: 2011-1 Purchasing Policy

Condition: The Town has written policies and procedures in place for cash disbursements. During the year we noted several instances where the actual procedures being followed were not in accordance with the Town's written procedures. We recommend the Town update their written policies and procedures for cash disbursements and consistently apply them.

Management's Response:

The Town strives to maintain policies and procedures for cash disbursements and all aspects of the accounting process that meet the highest standards. The Town has always required more documentation than dictated under the Town's written policies. These procedures have continued to be followed even though not written. As circumstances change over time, it is prudent to review and clarify the written policies to keep them most effective. We will update the Town's written policies and procedures and apply them consistently.

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, 2011, 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, 2011, 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, the results of our procedures did not disclose that the Town of Palm Beach Shores, Florida has met any of the conditions described in Section 218.503(1) during the fiscal year ended September 30, 2011.

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, 2011, 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, 2011. In connection with our audit, we noted that the 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,

2011, 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, 2011.

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 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
February 3, 2012