

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**FINANCIAL STATEMENTS WITH INDEPENDENT**  
**AUDITOR'S REPORT THEREON**  
**ANNUAL AUDIT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2009**

TOWN OF PALM BEACH SHORES, FLORIDA  
 SEPTEMBER 30, 2009

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## INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Palm Beach Shores as of and for the year ended September 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Palm Beach Shores' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principals.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2010, on our consideration of the Town of Palm Beach Shores' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the required supplementary information on pages 34-35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Palm Beach Shores' basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of the Town. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, 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  
January 4, 2010

## **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, 2009. 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, 2009:

- The Town's net assets increased by \$503,202 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2009 by \$6,981,781 (net assets). Of this amount, \$2,046,126 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's revenues for governmental activities were \$4,160,492, a decrease of 7.8% from the prior year. The expenses for governmental activities were \$3,657,290, a decrease of 4.1% over the prior year.
- The General Fund unreserved undesignated fund balance at September 30, 2009 was \$1,189,293 or 32.8% of total general fund expenditures. The ideal financial position for the Town would be an unreserved fund balance equal to 25% of total general fund expenditures. The reason for this is property taxes are not received until December and 25% of fund balance represents enough funds for three months of expenditures. This money also serves as an emergency fund for unanticipated costs, such as hurricanes or other disasters.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to these basic financial statements, this report contains other supplementary information.

#### **Government-wide Financial Statements**

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

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

### **Fund Financial Statements**

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The fund financial statements focus on major funds. The funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

*Governmental Funds* (beginning on page 13) are used for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement. Most 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 36-38.

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 and must be spent on specific types of capital expenditures. These are non-major funds.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$6,981,781 as of September 30, 2009.

<b>Net Assets</b>			
(In thousands of dollars)			
<b>Governmental Activities</b>			
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>
<b>Assets:</b>			
Current and other assets	\$ 2,486	\$ 1,995	\$ 491
Capital assets	5,703	5,962	(259)
<b>Total assets</b>			
	<b>\$ 8,189</b>	<b>\$ 7,957</b>	<b>\$ 232</b>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 914	\$ 1,140	\$ (226)
Other liabilities	293	339	(46)
<b>Total liabilities</b>			
	<b>\$ 1,207</b>	<b>\$ 1,479</b>	<b>\$ (272)</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 4,905	\$ 4,961	\$ (56)
Restricted	31	6	25
Unrestricted	2,046	1,511	535
<b>Total net assets</b>			
	<b>\$ 6,982</b>	<b>\$ 6,478</b>	<b>\$ 504</b>

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.

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 \$503,202. Key elements of this increase are as follows:

### Changes in Net Assets (In thousands of dollars)

	Governmental Activities		
	2009	2008	Increase (Decrease)
<b>Revenues:</b>			
Program revenue:			
Charges for services	\$ 171	\$ 210	\$ (39)
Grants and contributions	117	121	(4)
General revenues:			
Property taxes	3,340	3,617	(277)
Utility taxes	277	282	(5)
Intergovernmental	162	177	(15)
Investment earnings	62	89	(27)
Miscellaneous	31	18	13
<b>Total revenue</b>	<b>\$ 4,160</b>	<b>\$ 4,514</b>	<b>\$ (354)</b>
<b>Expenses:</b>			
Program expenses:			
General government	\$ 737	\$ 718	\$ 19
Public safety	2,160	2,328	(168)
Physical environment	384	416	(32)
Culture and recreation	345	341	4
Interest on long-term debt	31	38	(7)
<b>Total expenses</b>	<b>\$ 3,657</b>	<b>\$ 3,841</b>	<b>\$ (184)</b>
Increase in net assets	503	673	(170)
Net assets – October 1	6,478	5,805	673
<b>Net assets – September 30</b>	<b>\$ 6,981</b>	<b>\$ 6,478</b>	<b>\$ 503</b>

Property taxes are the main source of revenues and represent approximately 80 percent of the revenue for governmental activities. Property taxes decreased by approximately \$277,000 as the result of decreased property value and maintaining the millage at 5.742 mills. Property values have fallen nationwide as the “housing bubble” ends. The Town only had minimal decline thanks to the proximity to the ocean and intercoastal waterway. This happened in conjunction with new State laws that increased the homestead exemption and limited municipalities’ ability to increase property taxes. Investment earnings were down by \$27,000 due to lower interest rates. Charges for services declined by \$39,000 because of decreases in building permit revenue and business tax receipt revenue. As the economy had declined, the amount of building in town and the number of businesses operating in town has dropped.

Expenses for Public Safety represent approximately 60 percent of Governmental activity expenses. Public Safety includes Police, Fire Rescue, Emergency Medical Services, Emergency Disaster, and Fire and Building Inspection. Public Safety expenses decreased by nearly 7% compared to the prior year.

## **FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

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

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

At September 30, 2009, the Town’s governmental funds reported ending fund balances of \$2.12 million, an increase of \$555,000 in comparison with the prior year. The reason for this increase was threefold: first, the Commission budgeted (\$191,000) to increase fund balance; second, some of the Community Center funds were not spent (\$113,000); and third, budget savings in various town departments. Approximately 92% of ending fund balances (\$1,954,642) constitutes unreserved fund balance, which is available for spending at the government’s discretion. The Town Commission has designated portions of the unreserved fund balance for certain future projects: \$112,893 is designated for the completion of the community center. The Town Commission has begun to set aside funds for larger future projects: underground utilities (\$500,000) and roads (\$140,000). The unreserved fund balance is within the General Fund, the chief operating fund of the Town. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed to inventories and prepaid items.

*Budgetary Highlights* - Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 36). The budget and

actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The Town's investment in capital assets for its governmental activities as of September 30, 2009 amounted to \$5.7 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 \$56,000 during the current fiscal year. Purchases during the year totaled \$171,000. Some of the parks and beach improvements made in the 1970s and 1980s were removed from the capital assets. These improvements were fully depreciated and had no further value to the Town. Major capital asset events during the current fiscal year included the following:

- The Police Department purchased 10 new tough book computers for each of the police vehicles. This \$56,000 purchase was made with funds generously donated by the Fleming Family Foundation.
- Finishing touches were made to the Community Center in the amount of \$26,000. These improvements included completion of the paver circle, completion of the irrigation system and landscaping, a dedication plaque, a flag pole, and tinting of the second floor windows.
- The piping and valves for the lift station at Ocean Avenue were replaced at a cost of \$20,000.
- A new computer network server and 4 computers were purchased and installed in the Administration Department in the amount of \$13,000.
- The remaining capital outlay consists of a variety of items of smaller scale than those identified herein.

**Capital Assets**  
(In thousands of dollars)

	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>
Land	\$ 101	\$ 101	\$ 0
Buildings and improvements	3,116	3,095	21
Parks and beach improvements	637	772	(135)
Equipment	721	630	91
Vehicles	721	750	(29)
Streets and sewers	3,465	3,433	32
Construction in progress	3	0	3
<b>Total capital assets</b>	<b>8,764</b>	<b>8,781</b>	<b>(17)</b>
Less accumulated depreciation	(3,061)	(2,819)	(242)
<b>Total</b>	<b>\$ 5,703</b>	<b>\$ 5,962</b>	<b>\$ (259)</b>

Additional information on the Town's capital assets can be found in Note 4 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, 2009.

**Outstanding Debt**  
(In thousands of dollars)

	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>
Note payable	\$ 792	\$974	\$ (182)
Capital leases	7	27	(20)
Compensated absences	115	138	(23)
<b>Total</b>	<b>\$ 914</b>	<b>\$ 1,139</b>	<b>\$ (225)</b>

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

**NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

The Town's 2010 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 78 percent of the General Fund budgeted revenues. For the fiscal year 2010, the millage rate remains unchanged from the previous year at 5.742 mills. This millage rate meets all of the State imposed requirements.

The assessed taxable value of the Town decreased by approximately 11% and will generate approximately \$420,000 less in tax revenue. Even with the changes in property taxes, revenues will be sufficient to cover the expenditures in the fiscal year 2010 budget. The budget continues to give the Town the ability to provide the expected level of governmental services without increasing its debt.

**REQUESTS FOR INFORMATION**

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

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Statement of Net Assets**  
**September 30, 2009**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,216,688
Investments	15,373
Receivables (net)	
Accounts	7,200
Special assessments	83,882
Due from other governments	20,593
Prepaid items	137,920
Inventories	4,046
Capital assets	
Non-depreciable	104,094
Depreciable (net of depreciation)	<u>5,599,269</u>
Total assets	<u><u>\$ 8,189,065</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 227,205
Accrued payroll	46,070
Accrued interest	6,848
Deferred revenue	13,313
Non-current liabilities	
Due within one year	195,311
Due in more than one year	<u>718,537</u>
Total liabilities	<u>1,207,284</u>
Net Assets	
Invested in capital assets, net of related debt	4,904,575
Restricted for capital improvements	18,624
Restricted for public safety	12,456
Unrestricted	<u>2,046,126</u>
Total net assets	<u>6,981,781</u>
Total liabilities and net assets	<u><u>\$ 8,189,065</u></u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2009**

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 736,457	\$ 7,539	\$	\$	\$ (728,918)
Public safety	2,160,364	110,797	23,348	84,397	(1,941,822)
Physical environment	384,369	26,748			(357,621)
Culture recreation	345,461	25,753		9,850	(309,858)
Interest on long term debt	30,639				(30,639)
<b>Total governmental activities</b>	<b>3,657,290</b>	<b>170,837</b>	<b>23,348</b>	<b>94,247</b>	<b>(3,368,858)</b>
General revenues					
Property taxes					3,339,709
Utility taxes and franchise fees					276,738
Intergovernmental					161,962
Investment earnings					62,368
Miscellaneous					31,283
<b>Total general revenues</b>					<b>3,872,060</b>
Change in net assets					503,202
Net assets, beginning of year					6,478,579
Net assets, end of year					<u>\$ 6,981,781</u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2009**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,198,603	\$ 18,085	\$ 2,216,688
Investments	15,373		15,373
Receivables (net)			
Accounts	7,200		7,200
Special assesments	83,882		83,882
Due from other governments	20,593		20,593
Due from other funds		539	539
Prepaid items	137,920		137,920
Inventories	4,046		4,046
Total assets	\$ 2,467,617	\$ 18,624	\$ 2,486,241
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 227,205	\$	\$ 227,205
Accrued payroll	46,070		46,070
Due to other funds	539		539
Deferred revenue	97,195		97,195
Total liabilities	371,009		371,009
<b>Fund balances</b>			
<b>Reserved for:</b>			
Prepaid items	137,920		137,920
Inventories	4,046		4,046
Public safety	12,456		12,456
Capital improvements		18,624	18,624
<b>Unreserved:</b>			
Designated for underground utilities	500,000		500,000
Designated for road improvement	140,000		140,000
Designated for community center	112,893		112,893
Undesignated	1,189,293		1,189,293
Total fund balances	2,096,608	18,624	2,115,232
Total liabilities and fund balances	\$ 2,467,617	\$ 18,624	\$ 2,486,241

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, 2009**

Fund balances total governmental funds		\$ 2,115,232
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 8,764,449	
Less accumulated depreciation	<u>(3,061,086)</u>	5,703,363
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		83,882
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	(115,060)	
Capital leases payable	(7,040)	
Notes payable	(791,748)	
Accrued interest on long-term debt	<u>(6,848)</u>	<u>(920,696)</u>
Net assets of governmental activities		<u><u>\$ 6,981,781</u></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, 2009**

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,617,546	\$	\$ 3,617,546
Special assessments and impact fees	20,305	15,905	36,210
Licenses and permits	97,826		97,826
Intergovernmental	185,310		185,310
Fines and forfeitures	12,971		12,971
Charges for services	60,040		60,040
Interest	62,254	114	62,368
Contributions	94,247		94,247
Miscellaneous	15,378		15,378
Total revenues	<u>4,165,877</u>	<u>16,019</u>	<u>4,181,896</u>
Expenditures			
Current			
General government	707,266		707,266
Public safety	2,072,179		2,072,179
Physical environment	208,053		208,053
Culture and recreation	232,154		232,154
Debt service			
Principal	202,326		202,326
Interest	32,984		32,984
Capital outlay	168,152	3,302	171,454
Total expenditures	<u>3,623,114</u>	<u>3,302</u>	<u>3,626,416</u>
Net change in fund balances	542,763	12,717	555,480
Fund balances, beginning of year	<u>1,553,845</u>	<u>5,907</u>	<u>1,559,752</u>
Fund balances, end of year	<u>\$ 2,096,608</u>	<u>\$ 18,624</u>	<u>\$ 2,115,232</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, 2009**

Net change in fund balances - total governmental funds \$ 555,480

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	\$ 171,454	
Less: current year depreciation	<u>(425,841)</u>	(254,387)
Loss on the sale of fixed assets		(4,551)

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

Tax revenues not collected in current year	(1,099)	
Special assessment revenues collected in current year	<u>(20,305)</u>	(21,404)

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

Principal payments on debt	<u>202,326</u>	202,326
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest	2,345	
Change in long-term compensated absences	<u>23,393</u>	<u>25,738</u>

Change in net assets		<u><u>\$ 503,202</u></u>
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See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Reporting Entity*

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

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

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

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

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

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

Separate financial statements are provided for governmental funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

*Governmental Funds*

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

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

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**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 and money market accounts.

*Investments*

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.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*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.

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 OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Compensated Absences* (Continued)

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.

*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.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Net Assets*

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

*Fund Equity*

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

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

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

Designations of portions of the fund balances in governmental funds are established to indicate management’s tentative plans for financial resources in a future period. At September 30, 2009, fund balance was designated as follows:

- Designated for underground utilities – Designated for expenditures to put utility lines underground.
- Designated for road improvements – Designated for expenditures to replace Town roads.
- Designated for community center – Designated for expenditures related to the completion of the community center.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

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

Budgeted amounts are as originally adopted, or as amended by appropriate action. During the year, four 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.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

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

*Property Taxes* (Continued)

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.

**NOTE 3 - CASH AND INVESTMENTS**

*Deposits*

As of September 30, 2009, the carrying amounts of the Town's deposits was \$2,216,588 and the bank balances totaled \$2,235,188. The Town also had cash on hand of \$100 resulting in a total cash carrying amount of \$2,216,688. All cash deposits are covered by the multiple financial institution collateral pool administered by the State of Florida. The collateral pool was created pursuant to the Florida Security for Deposits Act, Chapter 280, Florida Statutes. The collateral pool consists of assets pledged to the State Treasurer by financial institutions that comply with the requirements of Florida Statutes and have been thereby designated as "qualified public depositories". Therefore, the Town's entire bank balance of \$2,235,188 is insured either by Federal depository insurance or is collateralized with securities pursuant to the Florida Security for

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 3 - CASH AND INVESTMENTS** (Continued)

*Deposits* (Continued)

Public Deposits Act. The Town's deposits at year end are considered insured for custodial credit risk purposes.

*Investments*

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

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

On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A, (Local Government Surplus Funds Trust Fund Investment Pool) consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool 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, which was approximately \$2 billion or 14% of Pool assets. 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. From December 2007 through the end of fiscal year 2008-09, the SBA has transferred a total of \$1.46 billion in liquid assets from Fund B to participants in Florida PRIME. This amount represents nearly 73% of their original adjusted Fund B balances.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 3 - CASH AND INVESTMENTS** (Continued)

*Investments* (Continued)

At September 30, 2009, 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. Pool B is not rated by any nationally recognized rating agency.

The weighted average days to maturity (WAM) of Florida PRIME at September 30, 2009 was 33 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 Pool B at September 30, 2009 was 6.69 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 Pool B as of September 30, 2009.

As of September 30, 2009, the Town of Palm Beach Shores had \$9,925 and \$5,448 invested in Florida PRIME and Pool B, respectively for a total investment value of \$15,373. The fair value of the investment in Pool B is equal to the market value as of September 30, 2009. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

*Credit Risk*

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill their obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. At September 30, 2009, Florida PRIME was rated "AAA(m)" by Standard and Poor's Ratings Services. Pool 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.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009, was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 100,792	\$	\$	\$ 100,792
Construction in progress		3,302		3,302
Capital assets being depreciated:				
Buildings and improvements	3,094,623	21,720		3,116,343
Parks and beach improvements	772,458		(135,842)	636,616
Equipment	630,302	101,980	(11,215)	721,067
Vehicles	749,599	8,693	(37,268)	721,027
Streets and sewers	<u>3,433,411</u>	<u>35,759</u>	<u>(3,865)</u>	<u>3,465,305</u>
<b>Total at historical cost</b>	<u>8,781,185</u>	<u>171,454</u>	<u>(188,190)</u>	<u>8,764,449</u>
Less accumulated depreciation for:				
Buildings	\$ 280,495	\$ 81,514	\$	\$ 362,009
Parks and beach improvements	213,415	31,831	(133,563)	111,683
Equipment	280,921	81,969	(10,875)	352,015
Vehicles	510,128	64,414	(37,269)	537,273
Streets and sewers	<u>1,533,925</u>	<u>166,113</u>	<u>(1,932)</u>	<u>1,698,106</u>
<b>Total accumulated depreciation</b>	<u>2,818,884</u>	<u>425,841</u>	<u>(183,639)</u>	<u>3,061,086</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 5,962,301</u>	<u>\$ (254,387)</u>	<u>\$ (4551)</u>	<u>\$ 5,703,363</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 4 – CAPITAL ASSETS** (Continued)

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

**Governmental activities:**

General government	\$ 13,151
Public works	6,987
Police department	88,835
Fire department	27,245
Physical environment-streets and sewers	176,316
Culture and recreation	<u>113,307</u>
<b>Total depreciation expense for governmental activities</b>	<b><u>\$ 425,841</u></b>

**NOTE 5 – 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:			
2010	\$ 188,271	\$ 25,093	\$ 213,364
2011	194,573	18,703	213,276
2012	201,086	12,100	213,186
2013	<u>207,818</u>	<u>5,275</u>	<u>213,093</u>
	<b><u>\$ 791,748</u></b>	<b><u>\$ 61,171</u></b>	<b><u>\$852,919</u></b>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 5 – LONG-TERM DEBT** (Continued)

*Capital Lease*

The Town has entered into lease agreements for financing the acquisition of police vehicles, police radios and a fire truck. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The cost of assets purchased under capital lease arrangements as of September 30, 2009 was \$23,596 with related accumulated depreciation of \$7,472.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

Year Ending September 30:

2010	\$ 7,479
Less amount representing interest	<u>(439)</u>
Present value of minimum lease payments	<u>\$ 7,040</u>

*Changes in Long-Term Liabilities*

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

	<u>Balance October 1 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2009</u>	<u>Due Within One Year</u>
Note payable	\$973,920	\$	\$(182,172)	\$ 791,748	\$188,271
Capital leases	27,194		(20,154)	7,040	7,040
Compensated absences	<u>138,453</u>	<u>          </u>	<u>(23,393)</u>	<u>115,060</u>	<u>          </u>
	<u>\$1,139,567</u>	<u>\$</u>	<u>\$(225,719)</u>	<u>\$ 913,848</u>	<u>\$195,311</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 6 – 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, 2009, was \$83,882.

**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](mailto:rep@dms.MyFlorida.com), or calling toll free at 877-377-1737.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 7 - FLORIDA RETIREMENT SYSTEM** (Continued)

*Funding Policy*

Participating employers are required to make contributions based upon statewide contribution rates. The contribution rates by job class for the Town's employees at September 30, 2009, were as follows: regular employees 9.85% and special risk employees 20.92%.

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, 2009 was \$199,243, which is equal to the required contribution for each fiscal year.

***Retiree Health Insurance Subsidy Program***

*Plan Description*

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

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

*Funding Policy*

The State's current funding policy for the HIS is pay-as-you-go and provides for monthly employer contributions currently set as the legislatively determined rate of 1.11% of annual covered payroll. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. The GASB annual required contribution (ARC) calculated by the consulting actuary in the July 1, 2008 actuarial valuation for the fiscal year ending June 30, 2010 is 1.28% of active payroll (including DROP payroll). The State's funding policy requires a contribution rate that is different than the GASB required ARC, which is an accounting disclosure. To the extent the contribution rate required to fund the HIS Program is different than the computed ARC, adjustments in the Net Pension Obligation (NPO) will occur from year to year.

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](mailto:rep@dms.MyFlorida.com), or calling toll free at 877-377-1737.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 8 – COMMITMENTS**

*Fire Services, EMS Services, and Emergency Transport Services*

In January 2005, 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, 2005. 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 \$175,000 for the EMS and emergency transport services and \$75,000 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, 2009 totaled \$281,377.

*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, 2009, totaled \$151,507.

*Community Center*

In October 2005, the Town entered into an agreement for the construction of a Community Center. Under the terms of the original agreement, the contractor will be paid a total of \$1,903,211. The time limit for substantial completion of all work under the agreement is 300 consecutive calendar days. As of September 30, 2009, the building is substantially complete. Due to some unresolved installation problems, \$30,439 is payable to the contractor as of September 30, 2009. This liability is included with accounts payable. As resolution to this issue, the Town will pay for specific repairs which will reduce the amount due to the contractor. These repairs are estimated to be about \$40,000.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2009**

**NOTE 9 - 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 10 – NEW PRONOUNCEMENTS**

The Town is required to implement Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending September 30, 2010. 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 under age 65 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 postemployment benefits (OPEB) under GASB 45. The impact of the implementation of GASB 45 has not been determined.

**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, 2009**

	General Fund			Variance With
	Original	Final Revised		Final Budget
	Adopted Budget	Budget	Actual	Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 3,648,929	\$ 3,648,929	\$ 3,617,546	\$ (31,383)
Special assessments and impact fees	13,000	13,000	20,305	7,305
Licenses and permits	88,800	88,800	97,826	9,026
Intergovernmental	205,880	205,880	185,310	(20,570)
Fines and forfeitures	15,200	15,200	12,971	(2,229)
Charges for services	44,250	44,250	60,040	15,790
Interest	49,000	49,000	62,254	13,254
Contributions	1,000	83,200	94,247	11,047
Miscellaneous	4,000	4,000	15,378	11,378
Total revenues	4,070,059	4,152,259	4,165,877	13,618
<b>Expenditures</b>				
<b>Current</b>				
General government	801,520	801,520	707,266	94,254
Public safety	2,147,393	2,198,143	2,072,179	125,964
Physical environment	241,800	243,300	208,053	35,247
Culture and recreation	300,503	300,503	232,154	68,349
<b>Debt service</b>				
Principal	199,353	199,353	202,326	(2,973)
Interest	36,042	36,042	32,984	3,058
Capital outlay	77,000	296,583	168,152	128,431
Contingency	266,448	216,198		216,198
Total expenditures	4,070,059	4,291,642	3,623,114	668,528
Net change in fund balance	\$	\$ (139,383)	542,763	\$ 682,146
Fund balance, beginning of year			1,553,845	
Fund balance, end of year			\$ 2,096,608	

**TOWN OF PALM BEACH SHORES**  
**Notes to the Budgetary**  
**Required Supplementary Information (RSI)**  
**General Fund**  
**September 30, 2009**

**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**  
**Schedule of Departmental Revenues - Budget to Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2009**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Taxes</b>			
Ad valorem taxes	\$ 3,366,600	\$ 3,339,709	\$ (26,891)
Franchise fees and utility taxes	282,329	277,837	(4,492)
<b>Total taxes</b>	<u>3,648,929</u>	<u>3,617,546</u>	<u>(31,383)</u>
<b>Special assessments</b>	<u>13,000</u>	<u>20,305</u>	<u>7,305</u>
<b>Licenses and permits</b>			
Special permits	5,500	2,166	(3,334)
Occupational licenses	11,800	14,390	2,590
Building permits	70,000	80,270	10,270
Development fees	1,500	1,000	(500)
<b>Total licenses and permits</b>	<u>88,800</u>	<u>97,826</u>	<u>9,026</u>
<b>Intergovernmental revenues</b>			
Half-cent sales tax	94,561	84,805	(9,756)
Local option gas tax	40,667	37,909	(2,758)
State revenue sharing	29,370	27,058	(2,312)
Alcoholic beverage licenses	3,500	3,995	495
County occupational licences	8,100	8,024	(76)
Grants	29,682	23,348	(6,334)
Other intergovernmental revenues		171	171
<b>Total intergovernmental revenues</b>	<u>205,880</u>	<u>185,310</u>	<u>(20,570)</u>
<b>Fines and forfeitures</b>			
Fines and forfeitures	15,000	12,437	(2,563)
Police education	200	534	334
<b>Total fines and forfeitures</b>	<u>15,200</u>	<u>12,971</u>	<u>(2,229)</u>
<b>Charges for services</b>			
Sewer service	25,000	26,748	1,748
Beach parking	6,000	8,678	2,678
Community center rental	11,000	17,075	6,075
Miscellaneous services	2,250	7,539	5,289
<b>Total charges for services</b>	<u>44,250</u>	<u>60,040</u>	<u>15,790</u>
<b>Interest</b>	<u>49,000</u>	<u>62,254</u>	<u>13,254</u>
<b>Miscellaneous</b>			
Sale of surplus property		250	250
Contributions from private sources	83,200	94,247	11,047
Other	4,000	15,128	11,128
<b>Total miscellaneous</b>	<u>87,200</u>	<u>109,625</u>	<u>22,425</u>
<b>Total revenues</b>	<u>4,152,259</u>	<u>4,165,877</u>	<u>13,618</u>
<b>Other financing sources</b>			
Appropriated fund balance	<u>139,383</u>		<u>(139,383)</u>
<b>Total revenues and other financing sources</b>	<u>\$ 4,291,642</u>	<u>\$ 4,165,877</u>	<u>\$ (125,765)</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Schedule of Departmental Expenditures - Budget to Actual**  
**Fiscal General Fund**  
**For the Year Ended September 30, 2009**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 14,550	\$ 10,576	\$ 3,974
Capital outlay		1,050	(1,050)
Total legislative	<u>14,550</u>	<u>11,626</u>	<u>2,924</u>
Finance and administrative			
Personal services	348,832	341,752	7,080
Operating expenses	87,175	78,895	8,280
Capital outlay	15,800	13,641	2,159
Total finance and administrative	<u>451,807</u>	<u>434,288</u>	<u>17,519</u>
Legal counsel	<u>102,000</u>	<u>72,014</u>	<u>29,986</u>
Planning	<u>18,600</u>	<u>6,969</u>	<u>11,631</u>
Public works			
Personal services	102,163	102,113	50
Operating expenses	43,200	21,985	21,215
Total public works	<u>145,363</u>	<u>124,098</u>	<u>21,265</u>
Risk management	<u>85,000</u>	<u>72,962</u>	<u>12,038</u>
Total general government	<u>817,320</u>	<u>721,957</u>	<u>95,363</u>
Public safety			
Police			
Personal services	1,124,651	1,078,369	46,282
Operating expenses	163,520	128,036	35,484
Capital outlay	67,200	87,243	(20,043)
Debt service	21,930	21,929	1
Total police	<u>1,377,301</u>	<u>1,315,577</u>	<u>61,724</u>
911 dispatch			
Personal services	371,461	373,976	(2,515)
Operating expenses	13,655	10,862	2,793
Capital outlay	1,200	1,073	127
Total 911 dispatch	<u>386,316</u>	<u>385,911</u>	<u>405</u>
Fire			
Personal services	58,196	54,566	3,630
Operating expenses	137,325	119,976	17,349
Capital outlay	8,000	2,895	5,105
Total fire	<u>203,521</u>	<u>177,437</u>	<u>26,084</u>
Emergency medical services - contract	<u>194,575</u>	<u>194,570</u>	<u>5</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Schedule of Departmental Expenditures - Budget to Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2009**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Community policing			
Personal services	\$ 2,368	\$ 680	\$ 1,688
Operating expenses	8,132	6,591	1,541
Total community policing	<u>10,500</u>	<u>7,271</u>	<u>3,229</u>
Building department			
Personal services	77,500	91,571	(14,071)
Operating expenses	46,760	12,982	33,778
Total building department	<u>124,260</u>	<u>104,553</u>	<u>19,707</u>
Total public safety	<u>2,296,473</u>	<u>2,185,319</u>	<u>111,154</u>
Physical environment			
Garbage/solid waste disposal	156,500	156,440	60
Lift station sewer service			
Operating	17,700	12,017	5,683
Capital outlay	50,000	20,022	29,978
Total lift station sewer service	<u>67,700</u>	<u>32,039</u>	<u>35,661</u>
Streets/storm sewers			
Operating	69,100	39,596	29,504
Capital outlay	15,000	15,737	(737)
Total streets/storm sewers	<u>84,100</u>	<u>55,333</u>	<u>28,767</u>
Total physical environment	<u>308,300</u>	<u>243,812</u>	<u>64,488</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	121,300	85,929	35,371
Total parks/parkway	<u>121,300</u>	<u>85,929</u>	<u>35,371</u>
Beach facilities			
Personal services	85,264	74,964	10,300
Operating expenses	21,548	15,976	5,572
Total beach facilities	<u>106,812</u>	<u>90,940</u>	<u>15,872</u>
Community center			
Personal services	44,101	24,993	19,108
Operating expenses	28,590	30,292	(1,702)
Capital outlay	139,383	26,491	112,892
Total community center	<u>212,074</u>	<u>81,776</u>	<u>130,298</u>
Total cultural/recreation	<u>440,186</u>	<u>258,645</u>	<u>181,541</u>
Nondepartmentalized			
Contingency	216,198		216,198
Debt Service	213,465	213,381	84
Total nondepartmentalized	<u>429,663</u>	<u>213,381</u>	<u>216,282</u>
Total expenditures	<u>\$ 4,291,942</u>	<u>\$ 3,623,114</u>	<u>\$ 668,828</u>



NOWLEN, HOLT & MINER, P.A.

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

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FAX (561) 996-6248

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 (the "Town") as of and for the year ended September 30, 2009, and have issued our report thereon dated January 4, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting. The Town's response to the finding identified in our audit is also described below.

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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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

Compliance and Other Matters

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

We also noted certain additional matters that we have reported to the management of the Town of Palm Beach Shores in a separate letter dated January 4, 2010.

This report is intended solely for the information and use of the governing board, management, federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
January 4, 2010



# NOWLEN, HOLT & MINER, P.A.

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## MANAGEMENT LETTER

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

We have audited the basic financial statements of the Town of Palm Beach Shores, as of and for the year ended September 30, 2009, and have issued our report thereon dated January 4, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report in Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated January 4, 2010, should be considered in assessing the results of our audit.

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

In planning and performing our audit of the basic financial statements of the Town of Palm Beach Shores, for the year ended September 30, 2009, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control. While our purpose was not to provide an opinion on internal control, certain matters came to our attention that we want to report to you. We do not wish to imply that they cover every possible weakness or strength. Nevertheless, we do think they deserve your careful evaluation. The status of these comments will be reviewed during the next audit engagement. We have already discussed these comments with the Town's management and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

## **PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY**

### Segregation of Duties

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

### *Management's Response:*

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

## **CURRENT YEAR COMMENTS**

### Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2009, there were no departments with expenditures in excess of appropriations contrary to Section 166.241(2) Florida Statutes.

### Oversight Unit and Component Units

The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 31276, Laws of Florida 1955. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units related to the Town.

### Consideration of Financial Emergency Criteria

As required by the Rules of the Auditor General, our audit included a review of whether or not the Town has met one or more of the conditions described in Section 218.503(1), Florida Statutes. The results of our procedures did not disclose that the Town of Palm Beach Shores has met any of the conditions described in Section 218.503(1) during the year ended September 30, 2009.

### Financial Condition Assessment Procedures

As required by Rules of the Auditor General we applied financial condition assessment procedures for the Town of Palm Beach Shores. It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The results of our procedures did not disclose any matters that are required to be reported.

### Annual Financial Report

In connection with our audit, we reviewed the Annual Financial Report of Units of Local Government filed by the Town of Palm Beach Shores with the Florida Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes, for the year ended September 30, 2009. We noted that the amounts reported in the Annual Financial Report were in substantial agreement with the annual financial audit report for the year ended September 30, 2009.

### Investment of Public Funds

As required by the Rules of the Auditor General, our audit included a review of the Town's compliance with Section 218.415, Florida Statutes. The results of our procedures did not disclose any instances of noncompliance with Section 218.415 Florida Statutes by the Town of Palm Beach Shores for the year ended September 30, 2009. However, our audit does not provide a legal determination on the Town's compliance with this requirement.

### Other Current Year Comments

The rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters: (1) violations of laws, rules, regulations, and contractual provisions or abuse, that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud or illegal acts discovered by, or that come to the attention of the auditor. Our audit as of and for the year ended September 30, 2009 did not disclose any such items that are required to be reported under Chapter 10.550 Rules of the Auditor General and are not already addressed in our management letter.

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

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

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

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

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
January 4, 2010