

RESOLUTION OF THE TOWN COUNCIL OF THE
THE TOWN OF FORT MYERS BEACH, FLORIDA
RESOLUTION NUMBER 12-06

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FORT MYERS BEACH,
FLORIDA, ACCEPTING THE BASIC FINANCIAL STATEMENTS AND AUDIT FOR FISCAL
YEAR 2010-2011 AS PRESENTED BY THE TOWN MANAGER; AND PROVIDING AN
EFFECTIVE DATE

WHEREAS, Florida Statutes provide that municipalities shall have the governmental, corporate, and proprietary powers to enable them to conduct municipal government, perform municipal functions, and render municipal services, and exercise any power for municipal purposes, except when expressly prohibited by law; and

WHEREAS, Article X of the Town Charter of the Town of Fort Myers Beach empowers the Town to adopt, amend, or repeal such ordinances and resolutions as may be required for the proper governing of the Town; and

WHEREAS, the Town Council of Fort Myers Beach has convened in public meeting on June 7, 2010, following proper notice as required by Florida Statute; and

WHEREAS, the Town Council has reviewed the Basic Financial Statements and audit for FY 2011 (fiscal year 2010-2011) which had been previously provided.

IT IS HEREBY RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF FORT MYERS BEACH, FLORIDA AS FOLLOWS:

SECTION ONE: Authority. This Resolution is enacted pursuant to the provisions of Chapter 95-494, Laws of Florida, Chapter 166, Florida Statutes, and other applicable provisions of law.

SECTION TWO: Town Manager's Responsibility. The Town Manager of the Town of Fort Myers Beach has presented the Basic Financial Statements and Audit for the fiscal year 2010-2011.

SECTION THREE: Acceptance of Audit and Direction to Town Manager. The Town of Fort Myers Beach hereby accepts the Basic Financial Statements for the fiscal year 2010-2011. Said audit is attached hereto as Exhibit "A" and hereby incorporated by reference and the Manager is directed to perform all administrative duties and responsibilities with regard to the Town's statutory responsibilities with the State of Florida and otherwise.

SECTION FOUR: Severability. If any one of the provisions of this resolution should be held contrary to any express provision of law or contrary to the policy of express law, although not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such provision shall be null and void and shall be deemed separate from the remaining provisions of this resolution, and in no way affect the validity of all other provisions of this resolution.

SECTION FIVE: Effective Date. This resolution is effective immediately upon adoption.

The foregoing Resolution was adopted by the Town Council upon a motion by Council Member Mandel and seconded by Council Member Kosinski and upon being put to a vote, the result was as follows:

Larry Kiker, Mayor	aye
Bob Raymond, Vice Mayor	aye
Jo List, Councilmember	aye
Alan Mandel, Councilmember	aye
Joe Kosinski, Councilmember	aye

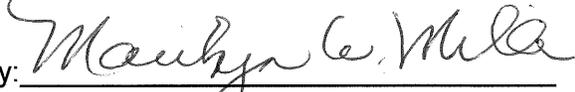
DULY PASSED AND ADOPTED THIS 16th DAY OF April, 2012, BY THE
TOWN COUNCIL OF THE TOWN OF FORT MYERS BEACH

By: 
Larry Kiker, Mayor

ATTEST:

By: 
Michelle D. Mayher, Town Clerk

Approved as to legal sufficiency:

By: 
Fowler White Boggs, PA

TOWN OF FORT MYERS BEACH, FLORIDA
BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

**TOWN OF FORT MYERS BEACH, FLORIDA
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SEPTEMBER 30, 2011**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Town Council
Town of Fort Myers Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Myers Beach, Florida (the "Town") 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Gas Tax Fund, and Beach Access Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15, the Town adopted Statement of Governmental Accounting Standards No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended September 30, 2011.

As described in Note 16 to the financial statements, the Town corrected an error in the Beach Access and Capital Projects funds (both major funds) financial statements involving grant revenues that were not earned as reported in the prior year.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 (MD&A) on pages 3 through 10 is not a required part of the basic financial statements, but is 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Town. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Town of Fort Myers Beach's financial statements is intended to provide a narrative introduction to the basic financial statements and an analytical overview of the Town's financial activities for the fiscal year ending September 30, 2011.

Since the Management's Discussions and Analysis is designed to focus on the current year's activities, resulting changes and current known facts, please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the Town of Fort Myers Beach exceeded its liabilities by \$32,736,147 (net assets). Of this amount, \$11,124,132 of unrestricted net assets may be used to meet the Town's ongoing obligations. The Town has restricted \$400,000 for future capital improvements and deferred maintenance for the Bay Oaks Recreation Center.
- The Town's total net assets increased by \$2,320,514. The change in net assets is primarily due to the Town's investment in capital assets.
- The Town of Fort Myers Beach's governmental funds reported combined ending fund balances of \$7,174,876 as of September 30, 2011. This is a decrease of \$1,465,676 from the restated September 30, 2010 ending fund balances.
- The Town's Capital Projects Fund and Beach Access Fund were restated due to grant revenues incorrectly reported as earned as of September 30, 2010, resulting in decreased fund balances of \$893,963.

USING THE BASIC FINANCIAL STATEMENTS

These basic financial statements consist of a series of financial statements.

Government-wide Financial Statements

The Statement of Net Assets (page 11) and the Statement of Activities (page 12) provide information about the activities of the Town as a whole. The Government-wide Financial Statements separate governmental from business-type activities but both are measured and reported on a full accrual basis using the economic resources measurement focus.

The Statement of Net Assets' purpose is to be used as an indicator of the improvement of the financial position of the Town. Net assets are the difference between the Town's assets and liabilities.

The Statement of Activities presents information showing how the Town's net assets changed during the 2011 fiscal year. The statement reflects the expenses of a given function or segment, which are offset by program revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function. Taxes are reported under general revenue.

Both of these financial statements distinguish primary types of functions of the Town as follows:

- Governmental activities – Most of the Town's primary functions are reported here, including culture/recreation, public works, streets and roads, planning and zoning, and general and administrative services. Major revenues supporting these activities are ad valorem taxes, gas taxes, communications services taxes, and intergovernmental revenues.

- **Business-type activities** – This column includes Public Works Services, a blended component unit which is used to account for the operation of the water system. The services are supported from user fees.

Fund Financial Statements

The Fund Financial Statements, which report by fund type, begin on page 13. The governmental funds measure and report activities using the current financial resources measurement focus and the modified accrual basis of accounting. Therefore, you will find the reconciliation on pages 14 and 16 that converts this data to an economic resources measurement focus and the accrual basis of accounting for use in the Government-wide Financial Statements. The Fund Financial Statements present information in more detail than the Government-wide Financial Statements.

The Town's major funds are presented in separate columns on the Fund Financial Statements. The funds that do not meet this criterion of a major fund are considered non-major funds and are combined into a single column, "Other Governmental Funds" on the Fund Financial Statements. The Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental reporting model.

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories:

1. **Governmental funds** – account for most of the Town's tax-supported activities. Examples are the General Fund and the Gas Tax Fund. These funds focus on how money flows into and out of the funds, and the balances left at year-end. The accounting method used is called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash, within a sixty-day period. The two criteria used are that the revenue is measurable and available.
2. **Proprietary funds** – are used to account for the business-type activities of the government. The Town's proprietary fund includes Public Works Services, a blended component unit. The proprietary fund uses full accrual basis accounting and the economic measurement focus. Fees or charges are the primary revenue service for the proprietary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes can be found beginning on page 24.

AN OVERVIEW OF THE TOWN

GOVERNMENT-WIDE STATEMENTS

The Government-wide Financial Statements were designed so that the user can determine if the Town is in a better or worse financial condition from the prior year. The Town's overall financial position has improved over the prior year.

Summary of Net Assets

The following table reflects a summary of Net Assets for the fiscal years September 30, 2011 and 2010:

**Town of Fort Myers Beach, Florida
Summary of Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 8,983,547	\$ 9,848,119	\$ 3,535,933	\$ 2,633,686	\$ 12,519,480	\$ 12,481,805
Capital assets, net	20,288,835	18,375,454	3,083,180	3,301,244	23,372,015	21,676,698
Total assets	<u>29,272,382</u>	<u>28,223,573</u>	<u>6,619,113</u>	<u>5,934,930</u>	<u>35,891,495</u>	<u>34,158,503</u>
Current and other liabilities	224,753	269,595	683,069	1,078,541	907,822	1,348,136
Noncurrent liabilities	87,526	54,734	2,160,000	2,340,000	2,247,526	2,394,734
Total liabilities	<u>312,279</u>	<u>324,329</u>	<u>2,843,069</u>	<u>3,418,541</u>	<u>3,155,348</u>	<u>3,742,870</u>
Net assets:						
Invested in capital assets, net of related debt	20,288,835	18,375,454	923,180	961,244	21,212,015	19,336,698
Restricted	400,000	400,000	-	-	400,000	400,000
Unrestricted	8,271,268	9,123,790	2,852,864	1,555,145	11,124,132	10,678,935
Total net assets	<u>\$ 28,960,103</u>	<u>\$ 27,899,244</u>	<u>\$ 3,776,044</u>	<u>\$ 2,516,389</u>	<u>\$ 32,736,147</u>	<u>\$ 30,415,633</u>

- For governmental activities net assets, \$20,288,835, or 70%, represent the amount invested in capital assets, less the outstanding debt used to acquire those assets. The 2011 balance reflects an increase of \$1,913,381, or 10%, over 2010. The Town uses these assets to provide services to its citizens and therefore, these assets are not available for future spending. It should also be noted that other resources will be required to repay the outstanding debt on capital assets. This balance represents resources that are subject to external restriction on how they may be used.
- Unrestricted net assets increased by \$445,197, or 4%, from 2010. Unrestricted net assets account for 34% of the Town's total net assets. These net assets may be used to meet the Town's ongoing obligations to citizens and creditors.
- Restricted net assets of \$400,000 represent funds that were received in conjunction with the Bay Oaks Recreation Center facility transfer from Lee County in 2009. This amount represents cash restricted for ongoing operational expenditures for the facility.

Summary of Changes in Net Assets

The following table compares revenues and expenses for the current fiscal year and the previous fiscal year:

Town of Fort Myers Beach						
Summary of Changes in Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$ 1,069,259	\$ 1,022,424	\$ 4,136,484	\$ 3,538,105	\$ 5,205,743	\$ 4,560,529
Operating grants and contributions	1,029,413	787,879	-	-	1,029,413	787,879
Capital grants and contributions	511,188	1,129,716	-	16,778	511,188	1,146,494
General revenues						
Property taxes	2,330,151	2,378,440	-	-	2,330,151	2,378,440
Gas taxes	332,717	336,118	-	-	332,717	336,118
Franchise fees	80,967	101,035	-	-	80,967	101,035
Communications services taxes	687,159	602,432	-	-	687,159	602,432
Intergovernmental revenues	598,910	578,749	-	-	598,910	578,749
Impact fees	43,426	13,170	-	-	43,426	13,170
Investment earnings	192,745	280,041	4,843	7,174	197,588	287,215
Miscellaneous	45,957	38,693	-	-	45,957	38,693
Total revenues	<u>6,921,892</u>	<u>7,268,697</u>	<u>4,141,327</u>	<u>3,562,057</u>	<u>11,063,219</u>	<u>10,830,754</u>
Expenses:						
Program expenses						
Governmental Activities						
General government	3,081,189	3,048,710	-	-	3,081,189	3,048,710
Public safety	-	1,155	-	-	-	1,155
Physical environment	254,613	172,736	-	-	254,613	172,736
Transportation	1,351,239	1,497,450	-	-	1,351,239	1,497,450
Economic environment	11,407	13,094	-	-	11,407	13,094
Culture/recreation	1,162,585	1,221,136	-	-	1,162,585	1,221,136
Business-type activities						
Water Utility	-	-	2,881,672	2,996,951	2,881,672	2,996,951
Total expenses	<u>5,861,033</u>	<u>5,954,281</u>	<u>2,881,672</u>	<u>2,996,951</u>	<u>8,742,705</u>	<u>8,951,232</u>
Increase in net assets	1,060,859	1,314,416	1,259,655	565,106	2,320,514	1,879,522
Net assets - beginning	27,899,244	26,584,828	2,516,389	1,951,283	30,415,633	28,536,111
Net assets - ending	<u>\$ 28,960,103</u>	<u>\$ 27,899,244</u>	<u>\$ 3,776,044</u>	<u>\$ 2,516,389</u>	<u>\$ 32,736,147</u>	<u>\$ 30,415,633</u>

Total revenues increased by \$232,465 or 3% in comparison to the prior year.

Total expenses decreased by \$208,527 or 3% in comparison to the prior year.

Governmental Activities

The table below presents the cost of the Town's larger programs as well as each program's net cost (total cost less program revenues), generated by the activities. The net cost represents the portion of each program that is supported by various taxes.

The cost of all governmental activities this fiscal year was \$5.9 million, consistent with the \$6.0 million for fiscal 2010. As shown in the Statement of Activities (page 12), the earnings from governmental activities were \$3.0 million for 2010 compared to a net cost of \$3.3 million for 2011. Revenues contributing to earnings from governmental activities consisted of:

- Approximately \$1,069,259 in charges for services of which there was approximately \$14,035 in revenue from fines and forfeitures, approximately \$402,104 from parking facilities revenues, \$94,980 for harborage usage fees, with the remainder from various fees for general government service.
- Approximately \$1,029,413 in operating grants and contributions. These operating grants include donations from the public and grants from the Tourist Development Council and the West Coast Inland Navigation District for beach access maintenance.
- Approximately \$511,188 in capital grants and contributions, which is mainly comprised of mainly comprised of grants from FEMA for capital projects including the North Estero project.

Town of Fort Myers Beach Governmental Activities				
	Total cost of services		Net cost (earnings) of services	
	2011	2010	2011	2010
Public safety	\$ -	\$ 1,155	\$ -	\$ 1,155
Physical environment	254,613	172,736	254,613	172,736
Transportation	1,351,239	1,497,450	292,679	(26,072)
Economic environment	11,407	13,094	(83,573)	(93,271)
Culture/recreation	1,162,585	1,221,136	121,856	201,093
General government	3,081,189	3,048,710	2,665,598	2,758,621
Totals	<u>\$ 5,861,033</u>	<u>\$ 5,954,281</u>	<u>\$ 3,251,173</u>	<u>\$ 3,014,262</u>

Business-type Activities

Revenues of the Town's business-type activities totaled \$4,141,327 and \$3,562,057 for 2011 and 2010, respectively. Operating expenses totaled \$2,881,672 and \$2,996,951 for 2011 and 2010, respectively. The increase in net assets was \$1,259,655 and \$565,106 for 2011 and 2010, respectively.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds

Governmental funds are comprised of the general fund, special revenue funds and a capital projects fund. Governmental funds use the current financial resources measurement focus that provides information on the near-term inflows, outflows, and balances of available resources.

The *General Fund* is the chief operating fund of the Town. It is used to account for all financial resources except those to be accounted for in another fund. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,680,099. During the current fiscal year, the fund balance of the Town's General Fund decreased by \$120,941.

The *Gas Tax Fund* is used to account for gas taxes and other resources dedicated to road related projects. This fund has a total fund balance of \$1,456,706, all of which is dedicated to road improvements and transportation related items. This fund balance decreased by \$1,866,571. The decrease in fund balance was anticipated because of the ongoing work on the North Estero project.

The *Beach Access Fund* expended \$191,722 in the current year.

The *Capital Projects Fund* is maintained by transfers from the general fund and other special revenue funds. Capital outlay of \$1,794,454 was expended in the current year.

All other governmental funds are accounted for in the column entitled *Other Governmental Funds*.

Proprietary Funds

The Town's proprietary fund is used to account for activities for which a fee is charged to external users for services. This fund provides the same type of information found in the Governmental-wide Financial Statements, but in more detail.

BUDGETARY HIGHLIGHTS

Revenue budget-to-actual in the general fund resulted in a \$184,640, or 3.5%, negative revenue variance.

Budget-to-actual expenditures show a \$285,124 positive variance (actual less than final budget). This decrease was consistent throughout all departments and reflects the continued efforts to reduce costs in the current year.

A more detailed analysis of the general fund budget comparison can be found on page 17.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table provides a comparative summary of capital assets (net of accumulated depreciation) by category:

Town of Fort Myers Beach						
Capital Assets						
(net of depreciation)						
	Governmental Activities		Business- type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 9,957,688	\$ 9,957,688	\$ 305,000	\$ 305,000	\$ 10,262,688	\$ 10,262,688
Buildings and leasehold improvements	2,096,050	2,167,106	-	-	2,096,050	2,167,106
Improvements other than buildings	16,568	18,108	-	-	16,568	18,108
Office furniture and equipment	100,985	132,775	-	-	100,985	132,775
Vehicles and other equipment	561,355	604,999	-	-	561,355	604,999
Infrastructure	4,005,936	1,054,527	2,756,113	1,702,149	6,762,049	2,756,676
Construction in progress	3,550,253	4,440,251	22,067	1,294,095	3,572,320	5,734,346
Total capital assets	<u>\$ 20,288,835</u>	<u>\$ 18,375,454</u>	<u>\$ 3,083,180</u>	<u>\$ 3,301,244</u>	<u>\$ 23,372,015</u>	<u>\$ 21,676,698</u>

Additional information on the Town's capital assets can be found in Note 8 to the financial statements.

Long-term Liabilities

As of September 30, 2011 and 2010, the Town had \$2,247,526 and \$2,394,734, respectively, in long-term liabilities. The following table provides a breakdown:

Town of Fort Myers Beach						
Outstanding Debt						
	Governmental Activities		Business- type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Note payable	\$ -	\$ -	\$ 2,160,000	\$ 2,340,000	\$ 2,160,000	\$ 2,340,000
Compensated absences	87,526	54,734	-	-	87,526	54,734
Total liabilities	<u>\$ 87,526</u>	<u>\$ 54,734</u>	<u>\$ 2,160,000</u>	<u>\$ 2,340,000</u>	<u>\$ 2,247,526</u>	<u>\$ 2,394,734</u>

Additional information on the Town's long-term debt can be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

The State of Florida operates primarily using sales, gasoline and corporate income tax. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, communication services, etc.) and fees (franchise, occupational licensing, impact, etc) for their governmental activities. There are a number of state-shared revenues and recurring and non-recurring (one-time) grant from both the state and federal governments.

The following factors were considered in preparing the Town's budget for the 2012 fiscal year:

- Due to the continuing downturn in the economy, the Town is dealing with a devaluation of real property values in the overall Southwest Florida area including the Town.
- The Town's elected officials and administration will continue to monitor the local and national economy in preparation of the 2012 Budget.

As of October 3, 2011, the Public Works Services, Inc. was dissolved as a separate entity. The Public Works Service Fund will continue to be reported in the Town's financial statements as a propriety fund. See note 14 for additional information.

Requests for Information

This financial report is designed to provide a general overview of the Town of Fort Myers Beach's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Town of Fort Myers Beach
Finance Director
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,060,985	\$ 2,763,890	\$ 4,824,875
Investments	4,649,808	-	4,649,808
Due from other governments	1,769,275	-	1,769,275
Accounts receivable, net	7,807	518,290	526,097
Special assessments receivable	37,389	-	37,389
Prepaid expenses	58,283	-	58,283
Restricted cash	-	253,753	253,753
Restricted investments	400,000	-	400,000
Capital assets (net of accumulated depreciation):			
Land	9,957,688	305,000	10,262,688
Buildings and leasehold improvements	2,096,050	279,145	2,375,195
Improvements other than buildings	16,568	-	16,568
Office furniture and equipment	100,985	8,742	109,727
Vehicles and other equipment	561,355	53,965	615,320
Infrastructure	4,005,936	2,414,261	6,420,197
Construction in progress	3,550,253	22,067	3,572,320
Total assets	<u>29,272,382</u>	<u>6,619,113</u>	<u>35,891,495</u>
LIABILITIES			
Accounts payable and other accrued liabilities	224,753	115,534	340,287
Customer refunds payable	-	9,437	9,437
Due to other governments	-	304,345	304,345
Liabilities payable from restricted assets - customer deposits	-	253,753	253,753
Long-term liabilities:			
Due in more than one year	87,526	2,160,000	2,247,526
Total liabilities	<u>312,279</u>	<u>2,843,069</u>	<u>3,155,348</u>
NET ASSETS			
Invested in capital assets, net of related debt	20,288,835	923,180	21,212,015
Restricted for recreation center	400,000	-	400,000
Unrestricted	8,271,268	2,852,864	11,124,132
Total net assets	<u>\$ 28,960,103</u>	<u>\$ 3,776,044</u>	<u>\$ 32,736,147</u>

See accompanying Notes to Financial Statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 3,081,189	\$ 413,566	\$ 2,025	\$ -	\$ (2,665,598)	\$ -	\$ (2,665,598)
Physical environment	254,613	-	-	-	(254,613)	-	(254,613)
Transportation	1,351,239	417,204	156,879	484,477	(292,679)	-	(292,679)
Economic environment	11,407	94,980	-	-	83,573	-	83,573
Culture/Recreation	1,162,585	143,509	870,509	26,711	(121,856)	-	(121,856)
Total governmental activities	5,861,033	1,069,259	1,029,413	511,188	(3,251,173)	-	(3,251,173)
Business-type activities:							
Water	2,881,672	4,136,484	-	-	-	1,254,812	1,254,812
Total primary government	\$ 8,742,705	\$ 5,205,743	\$ 1,029,413	\$ 511,188	\$ (3,251,173)	\$ 1,254,812	\$ (1,996,361)
General revenues:							
Property taxes, levied for general purposes					2,330,151	-	2,330,151
Gas taxes					332,717	-	332,717
Franchise fees					80,967	-	80,967
Communications services taxes					687,159	-	687,159
Intergovernmental revenues, not restricted to specific programs					598,910	-	598,910
Impact fees					43,426	-	43,426
Investment earnings					192,745	4,843	197,588
Miscellaneous					45,957	-	45,957
Total general revenues					4,312,032	4,843	4,316,875
Change in net assets					1,060,859	1,259,655	2,320,514
Net assets - beginning					27,899,244	2,516,389	30,415,633
Net assets - ending					\$ 28,960,103	\$ 3,776,044	\$ 32,736,147

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General	Gas Tax	Beach Access	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents - unrestricted	\$ 1,100,377	\$ -	\$ 109,404	\$ -	\$ 851,204	\$ 2,060,985
Investments	3,098,745	1,551,063	-	-	-	4,649,808
Investments - restricted	400,000	-	-	-	-	400,000
Special assessments and other receivables	45,196	-	-	-	-	45,196
Prepaid items	58,283	-	-	-	-	58,283
Due from other funds	694,878	1,545,739	-	1,479,668	-	3,720,285
Due from other governments	181,390	20,296	337,444	1,230,145	-	1,769,275
Total assets	\$ 5,578,869	\$ 3,117,098	\$ 446,848	\$ 2,709,813	\$ 851,204	\$ 12,703,832
LIABILITIES AND FUND BALANCES						
Liabilities:						
Account payable and accrued liabilities	\$ 176,091	\$ 5,041	\$ 14,717	\$ 28,904	\$ -	\$ 224,753
Due to other funds	345,045	1,655,351	248,065	1,471,824	-	3,720,285
Deferred revenue	37,389	-	337,444	1,209,085	-	1,583,918
Total liabilities	558,525	1,660,392	600,226	2,709,813	-	5,528,956
Fund balances:						
Nonspendable:						
Prepaid items	58,283					58,283
Restricted for:						
Parks and recreation	400,000	-	-	-	-	400,000
Old San Carlos assessments	111,733	-	-	-	-	111,733
Transportation	-	1,456,706	-	-	-	1,456,706
Beach	1,268,224	-	-	-	-	1,268,224
Impact fees	-	-	-	-	851,204	851,204
Assigned to:						
Emergency	502,005	-	-	-	-	502,005
Unassigned	2,680,099	-	(153,378)	-	-	2,526,721
Total fund balances (deficits)	5,020,344	1,456,706	(153,378)	-	851,204	7,174,876
Total liabilities and fund balances (deficits)	\$ 5,578,869	\$ 3,117,098	\$ 446,848	\$ 2,709,813	\$ 851,204	\$ 12,703,832

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Fund balance totals: \$ 7,174,876

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 funds.

Capital assets	\$ 22,482,292	
Less: Accumulated depreciation	<u>(2,193,457)</u>	20,288,835

Revenues that are not received by year-end are deferred in the governmental funds balance sheets, but recognized in the statement of activities.		1,583,918
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences		<u>(87,526)</u>
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Net assets of governmental activities		<u><u>\$ 28,960,103</u></u>
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TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	General	Gas Tax	Beach Access	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes						
Property	\$ 2,330,151	\$ -	\$ -	\$ -	\$ -	\$ 2,330,151
Gas	-	332,717	-	-	-	332,717
Franchise	80,967	-	-	-	-	80,967
Communications services	687,159	-	-	-	-	687,159
Local business	11,593	-	-	-	-	11,593
Licenses and permits	342,635	-	-	-	-	342,635
Intergovernmental revenues	705,601	140,200	4,487	625,504	-	1,475,792
Charges for services	642,796	-	-	-	-	642,796
Fines and forfeitures	14,035	-	-	-	-	14,035
Miscellaneous						
Special assessments/Impact fees	27,726	-	-	-	15,700	43,426
Interest	130,923	60,936	-	-	886	192,745
Other	121,930	-	-	-	-	121,930
Total revenues	<u>5,095,516</u>	<u>533,853</u>	<u>4,487</u>	<u>625,504</u>	<u>16,586</u>	<u>6,275,946</u>
EXPENDITURES						
Current						
General government	2,864,605	-	33,907	-	5,090	2,903,602
Physical environment	210,263	-	44,350	-	-	254,613
Transportation	1,059,941	145,146	2,667	-	-	1,207,754
Culture/Recreation	1,033,035	-	70,965	-	-	1,104,000
Capital Outlay	117,001	3,565	39,833	1,794,454	316,800	2,271,653
Total expenditures	<u>5,284,845</u>	<u>148,711</u>	<u>191,722</u>	<u>1,794,454</u>	<u>321,890</u>	<u>7,741,622</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(189,329)</u>	<u>385,142</u>	<u>(187,235)</u>	<u>(1,168,950)</u>	<u>(305,304)</u>	<u>(1,465,676)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	148,881	-	-	2,332,206	-	2,481,087
Transfers out	(80,493)	(2,251,713)	(135,431)	(13,450)	-	(2,481,087)
Total other financing sources (uses)	<u>68,388</u>	<u>(2,251,713)</u>	<u>(135,431)</u>	<u>2,318,756</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(120,941)	(1,866,571)	(322,666)	1,149,806	(305,304)	(1,465,676)
FUND BALANCES, October 1, 2010, as restated	<u>5,141,285</u>	<u>3,323,277</u>	<u>169,288</u>	<u>(1,149,806)</u>	<u>1,156,508</u>	<u>8,640,552</u>
FUND BALANCES, September 30, 2011	<u>\$ 5,020,344</u>	<u>\$ 1,456,706</u>	<u>\$ (153,378)</u>	<u>\$ -</u>	<u>\$ 851,204</u>	<u>\$ 7,174,876</u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

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

Net change in Fund balances - total governmental funds \$ (1,465,676)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	\$ 2,271,653	
Depreciation	<u>(358,272)</u>	1,913,381

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but are instead deferred. This item represents the change caused by the "available" revenue recognition criteria. 645,946

In the statement of activities, certain operating expenses-compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount represents the increase in the accrual of compensated absences at September 30, 2011 from September 30, 2010. (32,792)

Change in net assets of governmental activities \$ 1,060,859

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2011

	Budgets		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 2,426,613	\$ 2,426,613	\$ 2,330,151	\$ (96,462)
Franchise taxes	80,000	80,000	80,967	967
Communications services tax	672,300	672,300	687,159	14,859
Local business	10,000	10,000	11,593	1,593
Licenses and permits	144,500	144,500	342,635	198,135
Intergovernmental revenues	839,727	839,727	705,601	(134,126)
Charges for services	783,350	783,350	642,796	(140,554)
Fines and forfeitures	56,000	56,000	14,035	(41,965)
Miscellaneous				
Special assessments/Impact fees	-	-	27,726	27,726
Interest	118,300	118,300	130,923	12,623
Other	149,366	149,366	121,930	(27,436)
Total revenues	<u>5,280,156</u>	<u>5,280,156</u>	<u>5,095,516</u>	<u>(184,640)</u>
Expenditures				
Current				
General government	2,833,880	2,833,880	2,864,605	(30,725)
Physical environment	346,534	346,534	210,263	136,271
Transportation	1,157,314	1,157,314	1,059,941	97,373
Culture/Recreation	1,232,241	1,232,241	1,033,035	199,206
Capital Outlay	-	-	117,001	(117,001)
Total expenditures	<u>5,569,969</u>	<u>5,569,969</u>	<u>5,284,845</u>	<u>285,124</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(289,813)</u>	<u>(289,813)</u>	<u>(189,329)</u>	<u>100,484</u>
Other financing sources (uses)				
Transfers in	275,018	275,018	148,881	(126,137)
Transfers out	-	-	(80,493)	(80,493)
Total other financing sources (uses)	<u>275,018</u>	<u>275,018</u>	<u>68,388</u>	<u>(206,630)</u>
Net change in fund balances	<u>\$ (14,795)</u>	<u>\$ (14,795)</u>	<u>\$ (120,941)</u>	<u>\$ (106,146)</u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GAS TAX FUND
YEAR ENDED SEPTEMBER 30, 2011

	Budgets		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Taxes				
Gas taxes	\$ 436,785	\$ 436,785	\$ 332,717	\$ (104,068)
Intergovernmental	8,000	8,000	140,200	132,200
Miscellaneous	55,815	55,815	-	(55,815)
Interest	85,000	85,000	60,936	(24,064)
Total revenues	<u>585,600</u>	<u>585,600</u>	<u>533,853</u>	<u>(51,747)</u>
Expenditures				
Current				
Transportation	404,000	404,000	145,146	258,854
Capital Outlay	125,000	125,000	3,565	121,435
Total expenditures	<u>529,000</u>	<u>529,000</u>	<u>148,711</u>	<u>380,289</u>
Excess of revenues over expenditures	56,600	56,600	385,142	328,542
Other financing uses				
Transfers out	(2,164,870)	(2,164,870)	(2,251,713)	(86,843)
Total other financing uses	<u>(2,164,870)</u>	<u>(2,164,870)</u>	<u>(2,251,713)</u>	<u>(86,843)</u>
Net change in fund balances	<u>\$ (2,108,270)</u>	<u>\$ (2,108,270)</u>	<u>\$ (1,866,571)</u>	<u>\$ 241,699</u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GAS TAX FUND
YEAR ENDED SEPTEMBER 30, 2011

	Budgets		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Intergovernmental revenues	\$ 531,436	\$ 531,436	\$ 4,487	\$ (526,949)
Total revenues	531,436	531,436	4,487	(526,949)
Expenditures				
Current				
General government	139,039	139,039	33,907	105,132
Physical environment	24,000	24,000	44,350	(20,350)
Transportation	121,307	121,307	2,667	118,640
Culture/Recreation	111,878	111,878	70,965	40,913
Capital outlay	-	-	39,833	(39,833)
Total expenditures	396,224	396,224	191,722	204,502
Excess (deficiency) of revenues over (under) expenditures	135,212	135,212	(187,235)	(322,447)
Other financing uses				
Transfers out	(135,212)	(135,212)	(135,431)	(219)
Total other financing uses	(135,212)	(135,212)	(135,431)	(219)
Net change in fund balances	\$ -	\$ -	\$ (322,666)	\$ (322,666)

See accompanying Notes to Financial Statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF NET ASSETS – PROPRIETARY FUND
SEPTEMBER 30, 2011**

ASSETS

Current assets

Cash	\$ 2,763,890
Accounts receivable, net	518,290
Total current assets	3,282,180

Noncurrent assets

Restricted cash	253,753
Capital assets, net	3,083,180
Total noncurrent assets	3,336,933

Total assets	6,619,113
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Payable from current assets:	
Accounts payable	115,534
Customer refunds payable	9,437
Due to other governments	304,345
Total payable from current assets	429,316

Payable from restricted assets:	
Customer deposits	253,753
Total current liabilities	683,069

Long term liabilities

Note payable	2,160,000
Total liabilities	2,843,069

NET ASSETS

Invested in capital assets, net of related debt	923,180
Unrestricted	2,852,864
Total net assets	\$ 3,776,044

See accompanying Notes to Financial Statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS – PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2011**

OPERATING REVENUE	
Water utility revenue	<u>\$ 4,136,484</u>
OPERATING EXPENSES	
Bulk water	1,357,156
Depreciation expense	250,148
Management fees	435,780
Repairs and maintenance	422,860
Insurance	74,263
Administrative expense	89,806
Power	41,503
Professional services	68,798
Other operating supplies and expenses	46,229
Miscellaneous expenses	6,342
Office expenses	23,679
Total operating expenses	<u>2,816,564</u>
Operating income	<u>1,319,920</u>
NON-OPERATING REVENUE (EXPENSE)	
Interest income	4,843
Interest expense	(65,108)
Total non-operating expenses	<u>(60,265)</u>
Change in net assets	1,259,655
TOTAL NET ASSETS, beginning of year	<u>2,516,389</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 3,776,044</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 4,148,911
Cash paid to suppliers and others	(2,891,012)
Cash paid to employees	(89,806)
Net cash provided by operating activities	<u>1,168,093</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on note	(180,000)
Interest paid on note	(65,108)
Acquisition of capital assets	(32,084)
Net cash used in capital and related financing activities	<u>(277,192)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>4,843</u>
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Net change in cash	895,744
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CASH AND CASH EQUIVALENTS , beginning of year	<u>2,121,899</u>
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CASH AND CASH EQUIVALENTS , end of year	<u><u>\$ 3,017,643</u></u>
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RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 2,763,890
Restricted cash	253,753
Total cash and cash equivalents	<u><u>\$ 3,017,643</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,319,920
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	250,148
Net (increase) decrease in:	
Accounts Receivables	(6,503)
Net increase (decrease) in:	
Accounts payable	17,726
Due to Lee County, Florida	(203,100)
Due to Town of Fort Myers Beach, Florida	(229,028)
Customer refunds payable	4,180
Customer deposits	14,750
Net cash provided by operating activities	<u><u>\$ 1,168,093</u></u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Fort Myers Beach, Florida (the "Town"), was incorporated pursuant to Chapter 95-494 Laws of Florida. The Town operates under a Town Manager form of government and is governed by an elected five-member Town Council. The Town Manager is appointed by a majority vote of the Council. The Town provides the following services: parks and recreation, public works, streets and roads, planning and zoning, water utility services, and general and administrative services.

Governmental Accounting Standards Board (GASB) Statement No. 14, *Financial Reporting Entity* (GASB No. 14) as amended, requires the financial statements of the Town (the primary government) to include its component units, if any. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so the data from these units are combined with data of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

Component Units

Blended Component Units

The Town of Fort Myers Beach Community Redevelopment Agency (CRA) is included in the Town's reporting entity because of the significance of the operational and financial relationships with the Town. This component unit has the same governing body as the Town, and was accounted for in a special revenue fund but due to the implementation of Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) it is now reported within the General Fund. See note 15 for additional information. The CRA was established by the Lee Town Board of Town Commissioners pursuant to Resolution 90-07-21. The Town Council of The Town of Fort Myers Beach became the governing board of the CRA pursuant to the Town's Resolution 98-13. The CRA does not publish individual component unit financial statements.

The Town of Fort Myers Beach Public Works Services, Inc. ("Public Works Services") is a not-for-profit corporation, which provides potable water to the residents within the Town of Fort Myers Beach. The Town Council acts as the Board of Directors of the Company. The rates and user charges and debt issuance authorizations are approved by the Town Council. The Town has guaranteed the outstanding note payable of the Public Works Services with a pledge of its non Ad Valorem revenues. Public Works Services is reported as an enterprise fund.

A complete financial statement of Public Works Services can be obtained at:

Town of Fort Myers Beach
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) concentrate on the Town as a whole and do not emphasize fund types but rather a governmental or business-type classification, which are presented in separate columns. The governmental activities and business-type activities comprise the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. General governmental and intergovernmental revenues support the governmental activities, whereas the business-type activities are primarily supported by user fees and charges for services. The purpose of the government-wide financial statements is to allow the user to be able to determine if the Town is in a better or worse financial position than the prior year.

The statement of activities reflects the expenses of a given function or segment, which are offset by program revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function. Taxes are reported under general revenue.

The Town's major funds are presented in separate columns on the governmental fund financial statements and the proprietary fund financial statements. The definition of a major fund is one that meets certain criteria set forth in GASB No. 34. The funds that do not meet the criteria of a major fund are considered non-major funds and are combined into a single column on the fund financial statements.

The effect of interfund activity has been removed from the government-wide financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

The government-wide financial statements are prepared on a full accrual basis using the economic resources measurement focus, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements have been met.

Proprietary funds record both operating and non-operating revenues and expenses. Operating revenues are those that are obtained from the operations of the proprietary fund that include user fees. Non-operating revenues are not related to the operations of the proprietary fund and include interest earnings and other miscellaneous non-operating receipts. Operating expenses represent the cost of operations, which includes depreciation. Non-operating expenses are not related to operations such as interest expense.

Governmental fund financial statements are prepared on the modified accrual basis using the current financial resources measurement focus. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The Town considers all revenues available if they are collected within sixty days after year-end. Primary revenues, such as property taxes, special assessments, intergovernmental revenues, charges for services, sales and franchise taxes, rents, and interest are treated as susceptible to accrual under the modified accrual basis and so have been recognized as revenues.

Expenditures reported in governmental fund financial statements are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due.

The business-type activities reported in the government-wide financial statements and proprietary funds follow private sector standards issued prior to December 1, 1989, to the extent those standards do not conflict with Governmental Accounting Standards Board statements. However, pursuant to GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Town has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

- (b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

When both restricted and unrestricted resources are available, restricted resources will be used first for incurred expenses, and then unrestricted as needed.

The Town reports the following major funds in the governmental fund financial statements:

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

The *Gas Tax Fund* is used to account for gas taxes and other resources dedicated to road related projects.

The *Beach Access Fund* is used to account for activity to make the beaches more accessible.

The *Capital Projects Fund* is used to account for funds and other resources used for the acquisition and/or construction of major capital facilities.

The Town reports the following major fund in the business-type fund financial statements:

Public Works Services Fund is used to account for the activities of the operation of the water system.

- (c) Budgets and budgetary accounting

The Town follows the procedures enumerated below in establishing the legally adopted budgetary data reflected in the fund financial statements.

1. On or before July 15 of each year, the Town Manager is to submit to the Town Council a proposed operating budget, including a Town Manager's message explaining the budget, for the fiscal year commencing the following October 1. The operating budget will include a complete financial plan of all Town funds and activities for the ensuing fiscal year.
2. The Town Council shall publish in one or more newspapers of general circulation the time and place of public hearings. Public hearings are then conducted to obtain taxpayer comments.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

- (c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)
3. Prior to October 1, the budget is legally enacted through passage of a resolution required by Town Charter and as required by the State of Florida.
 4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
 5. Budget amounts, as shown in the fund financial statements, are as originally adopted and as finally amended by the Town Council. If, during the fiscal year, additional revenues become available for appropriation in excess of those estimated in the budget, the Town Council may make supplemental appropriations by resolution for the year up to the amount of such excess. There were no supplemental appropriations during the year.
 6. The annual budgets serve as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted for each fund. The Council must approve all budget amendments, which change the legally adopted total appropriation for a fund. Authority to transfer budget within a fund is delegated to the Town Council. Appropriations lapse at the fiscal year end.
- (d) Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash consists of amounts in demand deposits and certificates of deposit. Investments consist of amounts on deposit with the Florida State Board of Administration's Local Government Surplus Trust Fund and with the Florida Municipal Investment Trust.

The Town's investment policy follows section 218.415 of the Florida Statutes and allows management to invest any surplus funds in its control in the following:

1. The Florida State Board of Administration's Local Government Surplus Trust Fund
2. Florida Municipal Investment Trust (an intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01)
3. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency
4. Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Florida Statutes, Chapter 280.02
5. Direct obligations of the United States Treasury

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

Cash and Investments (Continued)

For accounting and investment purposes, the Town maintains a cash and investment pool that is available for use by all funds except those whose cash and investments must be segregated due to legal or other restrictions. Investments within this pool are treated as a demand deposit account by the various funds of the Town that participate. Interest earned on investments in the pool is allocated to the various funds based upon each fund's equity balance in the pool during the allocation period.

For purposes of the statement of cash flows, the Town considers highly liquid investments, including those held as restricted assets, with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

The accounts receivable of the Town are recorded net of allowance for doubtful accounts which generally is equivalent to the receivables that are over 90 days past due.

Special assessment receivables that are not expected to be collected in the current period are reported as deferred revenue in the governmental fund statements. Delinquent special assessments receivable are expected to be recovered, ultimately through liens.

Due From/Due To

Activity between funds during the year is recorded by transferring cash. However, after September 30, cash can no longer move between funds. Therefore a "due from" and "due to" are used to record any activity representing current inter-fund loans. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

Capital Assets

Capital assets include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. As permitted by GASB No. 34, the Town has elected not to report infrastructure assets retroactively.

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

Capital assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at their fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Town follows a capitalization policy that calls for the capitalization of all capital assets that have costs of \$1,000 or more and useful lives in excess of one year.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The ranges of the useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Building and building improvements	10 - 40
Leasehold improvements	10
Equipment	5 - 10
Computer equipment	3 - 10
Furniture	3 - 10
Vehicles & rolling stock	3 - 10
Distribution lines	15
Booster stations	25
North Estero	30
Generators	10

Deferred Revenue

Deferred revenues do not meet the availability criteria. In the governmental funds, special assessments and certain amounts due from other governments are deferred until collected.

Compensated absences

Full-time employees may accumulate vacation and medical leave. The Town's policy allows employees to accumulate up to 240 hours of vacation leave and 720 hours of medical leave. Upon voluntary or involuntary separation from employment, an employee will be paid for all accumulated vacation leave (up to 240 hours).

The accumulated compensated absences are accrued when incurred in the government-wide financial statements for both the current and long-term portions.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

Fund balance

In the fund financial statements, fund balance for the governmental funds is reported in classifications that comprise a hierarchy based on the extent to which the Town is bound to honor constrains on the specific purposes for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. “Not in spendable form” includes items that are not expected to be converted to cash such as prepaid amounts.

Restricted – This component includes amounts that are subject to externally enforceable legal restrictions, which are imposed either (a) by third parties, such as creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed – This component consists of amounts that can only be used for specific purposes imposes by formal action (resolution) of the Town Council, the Town’s highest level of decision making authority. The committed amounts are not subject to legal enforceability by external parties, as in restricted fund balance; however, these amounts cannot be used for any purpose unless the Town Council removes or changes the limitation by taking the same form of action (resolution) it employed to previously commit those amounts. The Town does not have any committed balances.

Assigned – This component consist of amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Intent is expressed by (a) Town Council, or (b) the Town Manager, Finance Director, or other subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes. Included in this category is any fund balance carry-forward used to balance the subsequent year’s budget.

Unassigned – This classification represents amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

**NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Summary of Significant Accounting Policies (Continued)

Other governmental funds besides the General Fund can only report a negative unassigned fund balance amount.

In determining the classification of total spendable fund balance remaining at the end of the fiscal year, when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available, it is the Town's intent that expenditures will be applied first to restricted fund balance and then to unrestricted fund balance (committed, assigned, and unassigned). When unrestricted fund balance (committed, assigned, and unassigned) is available for use, it is the Town's intent to use committed resources first, then assigned, and the unassigned as needed.

The Town does not currently have a fund balance or net asset policy.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Town to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 PROPERTY TAXES

The billing and collection of all property taxes is performed for the Town by the Lee County, Florida Tax Collector. Property taxes are levied after formal adoption of the Town's budget and become due and payable on November 1 of each year. Discounts are allowed for payment of property taxes before March 1 of the following year. Taxes are recognized as revenue when levied to the extent that they result in current receivables. On April 1, any unpaid taxes become delinquent. If the taxes are still unpaid in May, tax certificates are then offered for sale to the general public. The proceeds collected are remitted to the Town. There were no delinquent taxes or uncollected taxes at year end.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Note 2 PROPERTY TAXES (continued)

Key dates in the property tax cycle (latest date, where appropriate) are as follows:

July 1	◆ Assessment roll validated
September 30	◆ Millage resolution approved and taxes levied following certificate of assessment roll
October 1	◆ Beginning of fiscal year for which tax is to be levied
November 1	◆ Property taxes due and payable (levy date) with various discount provisions through March 1
April 1	◆ Taxes become delinquent
Prior to June 1	◆ Tax certificates sold by Lee County Tax Collector

NOTE 3 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

Beach Access Fund – The current accumulated fund deficit in of \$153,378 is a result of projects being complete but the fund not being reimbursed by the correct funding sources by fiscal year end. This fund deficit balance will be recovered in subsequent years.

NOTE 4 CASH AND INVESTMENTS

Cash

Governmental Activities

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. In accordance with its policy, all Town depositories are banks designated by the Florida State Treasurer as qualified public depositories. Chapter 280 of the Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Treasurer as agent for the public entities. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and non-negotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Treasurer eligible collateral having a market value equal to or in excess of the average daily balance of public deposits times the depository collateral pledging level required pursuant to Chapter 280 as computed and reported monthly or 125 percent of the average monthly balance, whichever is greater. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof, and therefore, the Town is not exposed to custodial credit risk.

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 4 CASH AND INVESTMENTS (CONTINUED)

Investments

As of September 30, 2011, the Town had the following investments:

<u>Investment Type</u>	<u>Percent of Portfolio</u>	<u>Fair Value</u>
Florida Municipal Investment Trust (FMIT)	92.68%	\$ 4,680,220
SBA Florida PRIME	7.20%	363,398
SBA Fund B	0.12%	6,190
		<u>\$ 5,049,808</u>

The FMIT is an external investment pool. The Town's investment in the FMIT is not evidenced by securities that exist in physical or book form and, therefore, disclosures for concentration of credit risk and custodial credit risk are not applicable. The Town's investment at FMIT is in the Intermediate High Quality Bond Fund. This fund was rated AAA/V3 by Fitch Ratings as of September 30, 2011. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The weighted average days to maturity (WAM) of the FMIT Intermediate High Quality Bond Fund at September 30, 2011 was 3.23 years.

The Florida State Board of Administration's (SBA) Florida PRIME formerly known as the Local Government Surplus Funds Trust Fund Investment Pool (SBA LGIP) meets the criteria of a Rule 2a-7 like pool and the investments are valued using the account balance which is stated at amortized cost. Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1.00 per share. The weighted average days to maturity (WAM) of the Florida PRIME at September 30, 2011 was 38 days. The Florida PRIME is rated by Standard & Poor's. The current rating is AAAM.

The SBA Fund B is accounted for as a fluctuating net asset value (NAV) pool. The fair value factor for Fund B for September 30, 2011 was .7568386. The weighted average life (WAL) of Fund B at September 30, 2011 was 4.82 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life. Fund B has not participated in a securities lending program in the fiscal year ending September 30, 2011. Fund B is not rated by any nationally recognized statistical rating agency.

The Local Government Surplus Funds Trust Fund Investment Pools are administered by the State Board of Administration under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code.

Business-type Activities

At September 30, 2011, Public Works Services' deposits were insured or collateralized pursuant to Florida Statute Chapter 280.

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 5 ACCOUNTS RECEIVABLE

At September 30, 2011, accounts receivable consisted of the following:

	Gross accounts receivable	Less allowance for doubtful accounts	Accounts receivable, net
<u>Government Activities</u>			
Accounts receivable	\$ 7,807	\$ -	\$ 7,807
<u>Business-type Activities</u>			
Water	\$ 293,178	\$ 13,408	\$ 279,770
Sewer	249,952	11,432	238,520
Total	\$ 543,130	\$ 24,840	\$ 518,290

NOTE 6 RESTRICTED ASSETS

Restricted assets represent funds restricted for the following purposes at September 30, 2011:

<u>Government Activities</u>	
Investments restricted for recreation center	\$ 400,000
<u>Business-type Activities</u>	
Customer deposits	253,753
	\$ 653,753

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances at September 30, 2011, consisted of the following:

	Purpose	Amount
Due to: General Fund		
Beach Access	Operations	\$ 248,065
Capital Projects	Operations	271,130
Gas Tax	Operations	175,683
	Total due to General Fund	694,878
Due to: Gas Tax Fund		
General Fund	Operations	345,045
Capital Projects	Operations	1,200,694
	Total due to Gas Tax Fund	1,545,739
Due to: Capital Projects Fund		
Gas Tax	Operations	1,479,668
Total		\$ 3,720,285

Interfund transfers for the year ended September 30, 2011, consisted of the following:

	Purpose	Amount
Transfer to Capital Projects Fund		
Gas Tax Fund	To pay for current year projects	\$ 2,251,713
General	To pay for current year projects	80,493
Transfer to General Fund		
Beach Access	Personnel and other costs	135,431
Capital Projects	Personnel and other costs	13,450
		\$ 2,481,087

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 8 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 is as follows:

<u>Governmental activities:</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 9,957,688	\$ -	\$ -	\$ 9,957,688
Construction in progress	4,440,251	2,124,705	3,014,703	3,550,253
Total capital assets not being depreciated	<u>14,397,939</u>	<u>2,124,705</u>	<u>3,014,703</u>	<u>13,507,941</u>
Capital assets being depreciated:				
Buildings and leasehold improvements	2,747,217	-	-	2,747,217
Improvements other than building	81,422	-	-	81,422
Office furniture and equipment	500,159	41,152	-	541,311
Vehicles and other equipment	1,218,037	87,947	-	1,305,984
Infrastructure	1,265,865	3,032,552	-	4,298,417
Total capital assets being depreciated	<u>5,812,700</u>	<u>3,161,651</u>	<u>-</u>	<u>8,974,351</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	580,111	71,056	-	651,167
Improvements other than building	63,314	1,540	-	64,854
Office furniture and equipment	367,384	72,942	-	440,326
Vehicles and other equipment	613,038	131,591	-	744,629
Infrastructure	211,338	81,143	-	292,481
Total accumulated depreciation	<u>1,835,185</u>	<u>358,272</u>	<u>-</u>	<u>2,193,457</u>
Capital assets being depreciated, net	<u>3,977,515</u>	<u>2,803,379</u>	<u>-</u>	<u>6,780,894</u>
Governmental activities capital assets, net	<u>\$18,375,454</u>	<u>\$ 4,928,084</u>	<u>\$ 3,014,703</u>	<u>\$20,288,835</u>

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

<u>Governmental activities:</u>	
General government	\$ 199,760
Transportation	57,840
Economic environment	11,407
Culture and recreation	89,265
Total depreciation expense, governmental activities	<u>\$ 358,272</u>

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TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 8 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended September 30, 2011 (continued):

<u>Business-type activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 305,000	\$ -	\$ -	\$ 305,000
Construction in progress	1,294,095	32,084	1,304,112	22,067
Total capital assets not being depreciated	<u>1,599,095</u>	<u>32,084</u>	<u>1,304,112</u>	<u>327,067</u>
Capital assets being depreciated:				
Computer equipment	61,116	-	-	61,116
South booster station	362,949	-	-	362,949
North booster station	94,701	-	-	94,701
North Estero	-	1,304,112	-	1,304,112
Distribution lines	3,011,706	-	-	3,011,706
Generators	95,104	-	-	95,104
Total capital assets being depreciated	<u>3,625,576</u>	<u>1,304,112</u>	<u>-</u>	<u>4,929,688</u>
Less accumulated depreciation for:				
Computer equipment	47,123	5,251	-	52,374
South booster station	124,673	15,369	-	140,042
North booster station	33,677	4,786	-	38,463
North Estero	-	14,489	-	14,489
Distribution lines	1,686,206	200,862	-	1,887,068
Generators	31,748	9,391	-	41,139
Total accumulated depreciation	<u>1,923,427</u>	<u>250,148</u>	<u>-</u>	<u>2,173,575</u>
Total capital assets being depreciated, net	<u>1,702,149</u>	<u>1,053,964</u>	<u>-</u>	<u>2,756,113</u>
Total business-type activities capital assets, net	<u>\$ 3,301,244</u>	<u>\$ 1,086,048</u>	<u>\$ 1,304,112</u>	<u>\$ 3,083,180</u>

NOTE 9 LONG-TERM OBLIGATIONS

Governmental Activities

Compensated Absences

The changes in long-term obligations during fiscal year ended September 30, 2011 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ 54,734	\$ 84,821	\$ 52,029	\$ 87,526	\$ -

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 9 LONG-TERM OBLIGATIONS (CONTINUED)

Business-type Activities

Note payable at September 30, 2011, consisted of the following:

Note payable to a financial institution, bearing interest at 2.78 percent, collateralized by a lien on and a pledge of the net revenues of the Utility. Additionally, the Town of Fort Myers Beach, Florida has, by way of resolution, pledged its non-Ad-Valorem revenues for payment of principal and interest on this debt in the event the Utility's net revenues are insufficient to make those payments. The Note was refinanced in August 2010 and matures August 2013.

\$ 2,160,000

Changes in Long - Term Obligations

The changes in long-term obligations for the year ended September 30, 2011 were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Note payable	<u>\$ 2,340,000</u>	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 2,160,000</u>	<u>\$ -</u>

Annual Maturities of Long-Term Obligations

The annual debt service requirement to pay the note payable at September 30, 2011, was as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 30,024	\$ 30,024
2013	<u>2,160,000</u>	<u>76,659</u>	<u>2,236,659</u>
	<u>\$ 2,160,000</u>	<u>\$ 106,683</u>	<u>\$ 2,266,683</u>

Loan Agreement

The loan agreement contains various covenants, including such items as debt service coverage, reporting requirements, and maintenance of facilities.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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; injuries to employees; and natural disasters.

The Town participated in the public entity risk pool administered by the Florida League of Cities, Inc. for general/professional liability, property and workers compensation. The Town pays an annual premium to Florida League of Cities, Inc. for this insurance program. Participation in this risk pool is non-assessable. There were no significant reductions in insurance coverage in the past two fiscal years. The amount of settlements did not exceed insurance coverage in each of the past three fiscal years.

The Florida League of Cities, Inc. published financial report for the year ended September 30, 2011, can be obtained from the Florida League of Cities, Inc., Public Risk Service, 135 East Colonial Drive, Orlando, Florida 32853-0065.

The Town retains the risk of loss up to a deductible amount (ranging from \$0 to \$250) with the risk of loss in excess of this amount transferred to the pool with limits of liability of \$1,000,000 to \$3,000,000 per occurrence.

NOTE 11 RETIREMENT PLAN

The Town sponsors a defined contribution pension plan entitled the Town of Fort Myers Beach Pension Plan (the "Plan"). The Plan covers all employees and is administered by the Town. The Plan is a prototype money purchase plan sponsored by VALIC. The Plan can only be amended by VALIC. However, the Town as the Plan administrator can amend the terms within the related Adoption Agreement, including employer contribution percentages. Contributions to the Plan are based on 10% of the employee's annual compensation (15% for the Town Manager) and vest 100% to employee upon contribution to the Plan. For the year ended September 30, 2011, contributions to the Plan totaled \$151,792.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Town leases office facilities under non-cancelable operating leases. Total costs for such leases were \$107,437 for the year ended September 30, 2011. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2012	\$ 114,616
2013	118,055
2014	121,596
	<u>\$ 354,267</u>

The lease includes an option to allow the Town to renew the lease term for five periods of one year each, commensurate on the market rate at the time of renewal. This renewal period begins in 2011 and continues until 2016.

The Town has received grants, which are subject to special compliance requirements by the Grantor agency, which could result in disallowed expense amounts. These amounts constitute a contingent liability of the Town.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

In fiscal year 2003, the State of Florida and Lee County provided funding toward the purchase of property known as the "Jim and Ellie Newton Property". The Town is required to comply with the terms of the grant agreements as to the use and maintenance of the acquired property. Title to this property would revert to the State of Florida if the Town does not comply with the terms of the grant agreement. In addition, the Town would be required to repay Lee County its funding of \$969,230 plus interest at 12% per annum.

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

On June 1, 2001, Woodard & Curran, Inc. was retained, pursuant to a contract with the Town to provide for the operation and maintenance of the Town's water system. The term of the agreement is for a period of three years, and was most recently renewed on April 18, 2011 extending through September 30, 2014. Pursuant to the agreement, Woodard & Curran Inc. is to receive \$37,884 in monthly compensation for its services. The monthly compensation is to be reviewed annually and adjusted as agreed upon by the Town and Woodard & Curran.

In April 2007, Central Parking Systems of Florida, Inc. was retained to provide services for the installation and maintenance of parking meters along with parking enforcement. The term of the agreement is for a period of three years. The contract was renewed on April 4, 2011. Pursuant to the agreement Central Parking Systems of Florida, Inc. is to receive \$299,601 annually in twelve equal monthly payments of \$24,967.

On May 22, 2007, Estero Bay Hotel Company, d/b/a Matanzas Inn, was retained to provide services for the operation and management of the Matanzas Harbor Anchorage according to the rules of the Matanzas Harbor Management Plan. The term of the agreement is for a three year period ending May 22, 2010. The Town is now on a month-to-month agreement with the Inn. Pursuant to the agreement the Town is to make payments by the 15th of each month of an amount equal to 70% of the previous month's net revenue. Estero Bay Hotel Company, d/b/a Matanzas Inn, is also eligible to receive out-of-pocket expense reimbursements; however, the expenses are required to be provided in writing in advance and agreed to by the Town.

NOTE 13 ECONOMIC DEPENDENCY

On August 3, 2001, a Bulk Water Agreement was entered into with Lee County, Florida, to provide the Public Works Services with potable water. Lee County is currently the only source of the Public Works Services' potable water that it supplies to the residents of the Town of Fort Myers Beach. The Bulk Water Agreement is for twenty-five years. The inter-local agreement provides that the County may, from time to time, increase the rate charged for cost of bulk water provided to the Public Work Service. As of September 30, 2011, the rate charged from Lee County was \$3.46 per 1,000 gallons. The Public Works Service revised its base rate effective January 1, 2010, to pass increased costs on to its customers.

NOTE 14 SUBSEQUENT EVENT

As of October 3, 2011 the Public Works Service is no longer a legally separate entity from the Town. The Public Works Service will continue to be reported as a propriety fund in the Town's financial statements but will no longer issue its own financial statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE 15 NEW ACCOUNTING PRONOUNCEMENT

For fiscal year ended September 30, 2011, the Town implemented Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54), that requires a change in the reporting format of fund balances in the governmental fund statements. During the process of implementing GASB 54, the Town evaluated its Special Revenue Funds and needed to reclassify some of the funds to become compliant with the statement. The result was that five Special Revenue Funds were eliminated and reclassified to the Town's General Fund. The five funds comprised the Beach Renourishment Fund, the Community Redevelopment Fund (CRA), the Old San Carlos Fund, the Emergency Fund, and the Palmetto/Easy Street Fund.

As a result, beginning fund balances for the following Governmental Funds were restated as of October 1, 2010 due to the implementation of GASB 54.

	Other Governmental Funds - Special Revenue Funds					
	General Fund	Beach Renourishment Fund	CRA Fund	Old San Carlos Fund	Emergency Fund	Palmetto/Easy Street Fund
Fund Balance - beginning of year, as originally reported	3,414,976	1,239,944	(118,276)	111,733	501,151	(8,243)
GASB 54 implementation	<u>1,726,309</u>	<u>(1,239,944)</u>	<u>118,276</u>	<u>(111,733)</u>	<u>(501,151)</u>	<u>8,243</u>
Fund Balance - beginning of year, restated	<u>\$ 5,141,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 16 RESTATEMENT

Beginning fund balance of the Capital Projects Fund and the Beach Access Fund were restated by \$879,186 and \$14,777, respectively, for grant revenues that were incorrectly reported as earned as of September 30, 2010.

SUPPLEMENTAL FINANCIAL INFORMATION

**TOWN OF FORT MYERS BEACH, FLORIDA
 COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2011**

	Park Impact	Road Impact	Totals
ASSETS			
Cash	\$ 223,836	\$ 627,368	\$ 851,204
Total assets	\$ 223,836	\$ 627,368	\$ 851,204
FUND BALANCES			
Fund balances			
Restricted for:			
Impact fees	\$ 223,836	\$ 627,368	\$ 851,204

**TOWN OF FORT MYERS BEACH, FLORIDA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE – NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED SEPTEMBER 30, 2011**

	Park Impact	Road Impact	Totals
REVENUES			
Miscellaneous			
Special assessments/Impact fees	\$ 972	\$ 14,728	\$ 15,700
Interest	<u>275</u>	<u>611</u>	<u>886</u>
Total revenues	<u>1,247</u>	<u>15,339</u>	<u>16,586</u>
EXPENDITURES			
Current			
General government	1,579	3,511	5,090
Capital outlay	<u>16,800</u>	<u>300,000</u>	<u>316,800</u>
Total expenditures	<u>18,379</u>	<u>303,511</u>	<u>321,890</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,132)</u>	<u>(288,172)</u>	<u>(305,304)</u>
Excess of revenues over (under) expenditures	<u>(17,132)</u>	<u>(288,172)</u>	<u>(305,304)</u>
FUND BALANCES, October 1, 2010	<u>240,968</u>	<u>915,540</u>	<u>1,156,508</u>
FUND BALANCES, September 30, 2011	<u>\$ 223,836</u>	<u>\$ 627,368</u>	<u>\$ 851,204</u>

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

Honorable Mayor and Town Council
Town of Fort Myers Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Myers Beach, Florida (the "Town") 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 May 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective 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 opinion 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses. Material weaknesses are IC 2009-01, IC 2009-02 and IC 2010-01.

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*.

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

This report is intended solely for the information and use of the Town Council, management of the Town, and others within the entity, federal awarding agencies and the Auditor General of the State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Town Council
Town of Fort Myers Beach, Florida

We have audited the Town of Fort Myers Beach, Florida's (the "Town") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended September 30, 2011. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items IC 2010-01.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did identify deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above, as described in the accompanying schedule of findings and questioned costs as item IC 2010-01.

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

This report is intended solely for the information and use of the Town Council, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

**TOWN OF FORT MYERS BEACH, FLORIDA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 SEPTEMBER 30, 2011**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Federal or Pass-Through Contract Number	Expenditures
Department of Homeland Security			
<i>Passed through the Florida Department of Emergency Management Public Assistance Grants</i>			
Hazard Mitigation Grant - North Estero	97.039	09-HM-06-09-46-02-010	<u>\$ 796,648</u>
Total Expenditures of Federal Awards			<u><u>\$ 796,648</u></u>

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011

NOTE 1 PURPOSE OF THE SCHEDULE

The Schedule of Expenditures of Federal Awards (the Schedule) is a supplementary schedule to the Town of Fort Myers Beach, Florida's (the "Town") basic financial statements and is presented for purposes of additional analysis. The Schedule is required by the Office of Management and Budget (OMB) Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Federal Financial Assistance – Pursuant to the Single Audit Act of 1984 (Public Law 98-502), the Single Audit Act Amendments of 1996 (Public Law 104-156), and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, that nonfederal entities receive or administer, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property interest subsidies, insurance, or direct appropriations.

Catalog of Federal Domestic Assistance – OMB Circular A-133 requires the Schedule to present the total expenditures for each of the Town's federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Federal financial assistance programs that have not been assigned a CFDA number are indicated with an "N/A."

Type A and Type B Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A assistance programs for the Town are those programs that exceeded \$300,000 of federal assistance for the year ended September 30, 2011.

All local governments that expend \$500,000 or more a year in federal financial assistance must undergo a single audit conducted in compliance with OMB Circular A-133.

Reporting Entity

The Town reporting entity is defined in Note 1 to the Town's basic financial statements for the year ended September 30, 2011.

Basis of Accounting

Expenditures included in the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for enterprise funds as defined in Note 1 to the basic financial statements.

**TOWN OF FORT MYERS BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

Part I - Summary of Auditors' Results

Financial Statement Section

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiencies identified not considered to be a material weakness(es) None Reported

Noncompliance material to financial statements noted? No

Federal Awards Section

Internal control over compliance:

Material weakness(es) identified? Yes

Were significant deficiency(ies) identified not considered to be a material weakness(es) None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 section 510 (a) No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant

Dollar threshold used to determine Type A Federal programs \$300,000

**TOWN OF FORT MYERS BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

Part II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

IC 2011-01 Prior Period Adjustment

Criteria

Town management is responsible for establishing and maintaining internal controls over the recording of all reimbursable grant revenue such that the revenue is recorded in the same period as the related expense being reimbursed.

Condition

We noted several instances in which the Town had incurred project expenditures during the year which were reimbursable, but the Town had not requested reimbursement, and/or had not properly recorded the revenue during the fiscal year.

Cause

The Town maintains records primarily on a cash basis and relies on its auditors to propose adjustments to convert certain accounts from a cash basis to an accrual basis. In addition, grant requests were not made on a timely basis due to the lack of diligence on the part of responsible Town personnel in compiling and submitting reimbursement requests to grantor agencies, and the lack of management oversight of this process.

Effect

Town revenues were overstated in the prior year by approximately \$890,000 on a modified accrual basis, due primarily to recording revenue that was not measurable and available at year end. Beginning fund balances of the Capital Projects Fund and the Beach Access Fund were overstated by \$879,186 and \$14,777, respectively.

Recommendation

We understand the cash to accrual modification is something management has relied on the auditing firm to perform in years past and that management has accepted a degree of risk associated with these entries because of cost or other considerations. However, we feel that the failure to request grant reimbursements on a timely basis is not an operational risk management should be willing to accept. We recommend that management define, and the Council adopt, certain procedures to ensure grant reimbursements are made on a monthly or quarterly basis and to ensure that reimbursement requests are complete and accurate.

**TOWN OF FORT MYERS BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

IC 2009-01 Financial Reporting Process

Criteria

Town management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards.

Condition

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance.

Cause

The Town has a limited number of personnel.

Effect

The design of the controls over the financial reporting process affects the Town's ability to report their financial data consistent with the assertions of management.

Recommendation

We understand that this situation is already known to management and represents a conscious decision by management and the Council to accept that degree of risk because of cost or other considerations. We acknowledge the fact that management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to ensure that the Council is aware of this situation.

IC 2009-02 Current Year Audit Adjustments

Criteria

Town management is responsible for establishing and maintaining internal controls for the proper recording of all the Town's receipts and disbursements, including reclassifications between funds, year-end accruals, and activity of all cash and investment accounts.

Condition

As part of the audit, we proposed audit adjustments to revise the Town's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts, fund balance reclassifications, and the capitalizing of capital asset purchases.

Cause

The Town maintains its records on the cash basis and relies on the auditor to propose adjustments to convert certain accounts from the cash basis to accrual basis.

**TOWN OF FORT MYERS BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

Effect

The design of the controls over the financial reporting process affects the Town's ability to report their financial data consistent with the assertions of management.

Recommendation

We understand that this material weakness is already known to management and represents a conscious decision by management and the Council to accept that degree of risk because of cost or other considerations. We acknowledge the fact that management is responsible for making decisions concerning costs and the related benefits. We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to ensure that the Council is aware of this situation.

Part III - Findings and Questioned Costs – Major Federal Programs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133, Section .510.

IC 2011-01 Prior Period Adjustment

Department of Homeland Security

97.039 Hazard Mitigation Grant

Passed through Florida Division on Emergency Management

See IC 2011-01.

There were no other findings required to be reported in accordance with Circular A-133, Section .510.

**TOWN OF FORT MYERS BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2011**

FEDERAL AWARD PROGRAMS

PRIOR AUDIT FINDINGS

Town revenues were understated in the current year by approximately \$1.2 million on a generally accepted accounting principles (GAAP) basis, due primarily to not recording revenue of approximately \$920,000 in reimbursements from FEMA for expenditures on the North Estero and Basin Based projects. Beginning fund balances of the General Fund, and the Beach Access Fund were understated, as well as the Governmental Activities net assets by \$120,246 and \$261,461, respectively.

STATUS

The Town hired a new accountant during the fiscal year to assist in tracking grant expenditures and ensuring that required reporting is being done in a timely manner.

MANAGEMENT LETTER

Honorable Mayor and Town Council
Town of Fort Myers Beach, Florida

We have audited the financial statements of the Town of Fort Myers Beach, Florida (the "Town"), as of and for the fiscal year ended September 30, 2011 and have issued our report thereon dated May 31, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 31, 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 auditors' reports.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except for comments 2009-01 and 2009-02 in the Report on Internal Control over Financial Reporting.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, see IC 2010-01.

Section 10.554(1)(i)4., Rules of the Auditor General, requires 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, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides 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) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires 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. The Town discloses this information in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town 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 determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. 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 same.

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, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Shinn & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

Town of Fort Myers Beach



To: Terry Stewart, Town Manager
Neil Unruh, Shinn & Company LLC

From: Evelyn Wicks, Finance Director

Date: April 12, 2012

Subject: Management letter for year ending 9/30/11 – Town of Fort Myers Beach

Comments

IC 2011-01 Prior Period Adjustment

Town Management is responsible for establishing and maintaining internal controls over the recording of all reimbursable grant revenue such that the revenue is recorded in the same period as the related expense being reimbursed.

Management's Response

In FY 2011, the Finance staff and other departments requested reimbursement for grants in a more consistent manner. The Finance staff has taken a greater role in verifying and initiating grant reimbursements. The 2012 budget authorized one additional staff accountant primarily for the Water Utility and to also assist with the Town's other funds. This additional position will permit staff the ability to consolidate all Town grants and insure that the grants are documented and monitored more effectively.

IC 2010-01 Prior Period Adjustment

Grant revenues should be reported when earned. Grant revenues due to be reimbursed by the State were not requested by, nor recorded by, the Town until after a whole fiscal year had gone by. The beginning fund balances of the General Fund and the Beach Access Fund were understated, as well as the Governmental Activities net assets by \$120,215, \$141,246 and \$261,461, respectively.

Management's Response

In FY 2011, the Finance staff and other departments requested reimbursement for grants in a more consistent manner. The Finance staff has taken a greater role in verifying and initiating grant reimbursements. We are still working on developing a Town wide plan to make sure that the grant revenues are documented, requested and monitored more effectively.

Terry Stewart, Town Manager
Neil Unruh, Shinn & Company LLC
April 11, 2011

IC 2009-01 Financial Reporting Process

Town management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards. As part of the audit, management requested that the external auditing firm prepare a draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for those financial statements prior to issuance.

Management's Response

In the past, the Town has had a very limited accounting staff; some items that would normally be developed by the staff are often delegated to outside firms. This situation remained the same for FY 2011 but should be improved with the addition of one staff accountant. The 2012 budget authorized one additional staff accountant to primarily work with the Water Utility and assist with the Town's other funds. We expect to continue to have the audit firm continue to prepare a draft of the financial statements prior to issuance with greater assistance from the Department.

2009-2 Current Year Audit Adjustments

Management is responsible for establishing and maintaining internal controls for the proper recording of all the Town's receipts and disbursements, including reclassifications between funds, year-end accruals, and activity of all cash and investment accounts. As part of the audit, we proposed audit adjustments to revise the Town's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts, fund balance reclassifications, and the capitalizing of capital asset purchase.

Management's Response

Year-end audit adjustments including accruals and capital asset activity for FY 2011 were prepared by the auditors. The finance staff reviews disbursements and revenues to insure they are classified correctly. The 2012 budget authorized one additional staff accountant to primarily work with the Water Utility and assist with the other Town funds. That person has been hired and I anticipate that the finance staff will prepare many of the year end entries.

**TOWN OF FORT MYERS BEACH
PUBLIC WORKS SERVICES, INC.
(A Component Unit of the Town of Fort Myers Beach, Florida)**

COMPONENT UNIT FINANCIAL REPORT

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2011 AND 2010**

**TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Town of Fort Myers Beach Public Works Services, Inc.
Fort Myers Beach, Florida

We have audited the basic financial statements of the Town of Fort Myers Beach Public Works Services, Inc. (the "Utility"), a component unit of the Town of Fort Myers Beach, Florida, as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit as of and for the years ended September 30, 2011 and 2010, in accordance with auditing standards generally accepted in the United States of America, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 3–7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.

Shinn & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The Management's Discussion and Analysis (MD&A) section of the Town of Fort Myers Beach's Public Works Services, Inc. (the "Utility") Basic Financial Statements presents a narrative overview and analysis of the financial activities of the Utility for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information provided.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and current known facts, please read it in conjunction with the Utility's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the Utility exceeded its liabilities by \$3,776,044 (net assets). Of this amount, \$2,852,864 of unrestricted net assets may be used to meet the utility's ongoing obligations.
- The Utility's total net assets increased by \$1,259,655.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. These statements consist of a series of financial statements.

Financial Statements

The Statement of Net Assets (page 8) provides information about the activities of the Utility as a whole. The Statement of Net Assets' purpose is to be used as an indicator of the improvement of the financial position of the Town. Net assets are the difference between the Utility's assets and liabilities.

The Statement of Revenues, Expenses and Changes in Net Assets (page 9) presents information showing how the Utility's net assets changed during the 2011 fiscal year. The statement reflects the expenses of the function, which is offset by operating revenues. Operating revenues are defined as revenues from the sale of water, connecting new customers to the system and miscellaneous other revenue.

Utility Financial Statements

The Utility uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governmental body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The Utility, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found beginning on page 11.

AN OVERVIEW OF THE UTILITY

Summary of Net Assets

The following table reflects a summary of Net Assets as of September 30,

ASSETS	2011	2010	2009
Current and other assets			
Cash	\$ 2,763,890	\$ 1,882,896	\$ 3,038,113
Accounts receivable, net	518,290	511,787	442,883
Restricted cash	253,753	239,003	217,096
Unamortized debt issuance costs	-	-	3,472
Capital assets, net	<u>3,083,180</u>	<u>3,301,244</u>	<u>2,296,077</u>
Total assets	<u>6,619,113</u>	<u>5,934,930</u>	<u>5,997,641</u>
 LIABILITIES AND NET ASSETS			
Current liabilities			
Payable from current assets	429,316	839,538	3,829,262
Payable from restricted assets - customer deposits	<u>253,753</u>	<u>239,003</u>	<u>217,096</u>
Total current liabilities	683,069	1,078,541	4,046,358
Long-term liabilities			
Note payable, net of current portion	<u>2,160,000</u>	<u>2,340,000</u>	<u>-</u>
Total liabilities	2,843,069	3,418,541	4,046,358
 Net Assets			
Invested in capital assets, net of related debt	923,180	961,244	(223,923)
Unrestricted	<u>2,852,864</u>	<u>1,555,145</u>	<u>2,175,206</u>
Total net assets	<u>\$ 3,776,044</u>	<u>\$ 2,516,389</u>	<u>\$ 1,951,283</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Summary of Changes in Net Assets

The following table compares revenues and expenses for the years ended September 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Operating revenues			
Utility revenue	\$ 4,136,484	\$ 3,538,105	\$ 2,575,738
Non-operating revenue			
Interest income	4,843	7,174	12,341
Total revenues	<u>4,141,327</u>	<u>3,545,279</u>	<u>2,588,079</u>
Expenses			
Operating expenses			
All operating expense	2,816,564	2,887,188	2,405,801
Non-operating expense			
Interest expense	65,108	109,763	124,938
Total expenses	<u>2,881,672</u>	<u>2,996,951</u>	<u>2,530,739</u>
Income before capital contributions	1,259,655	548,328	57,340
Capital contributions	-	16,778	13,093
Increase in net assets	1,259,655	565,106	70,433
Net assets - beginning of year	<u>2,516,389</u>	<u>1,951,283</u>	<u>1,880,850</u>
Net assets - end of year	<u>\$ 3,776,044</u>	<u>\$ 2,516,389</u>	<u>\$ 1,951,283</u>

- Total revenue increased by \$596,048 or 16.81% from 2010 to 2011, due primarily to 2011 being the first full year of an increase in water billing fees and implementation of a Capital Reserves Fee effective February 1, 2010.
- Total expenses decreased by \$115,279 or 3.85% from 2010 to 2011, due primarily to lower repair and maintenance expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table provides a comparative summary of capital assets (net of accumulated depreciation) by category:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 305,000	\$ 305,000	\$ 305,000
Construction in Process	22,067	1,294,095	172,325
Computer Equipment	61,115	61,115	45,364
South Booster Station	362,950	362,950	351,950
North Booster Station	94,701	94,701	94,701
North Estero	1,304,112	-	-
Distribution Lines	3,011,706	3,011,706	2,923,736
Generators	95,104	95,104	95,104
	<u>5,256,755</u>	<u>5,224,671</u>	<u>3,988,180</u>
Accumulated Depreciation	<u>(2,173,575)</u>	<u>(1,923,427)</u>	<u>(1,692,103)</u>
Total Capital Assets	<u>\$ 3,083,180</u>	<u>\$ 3,301,244</u>	<u>\$ 2,296,077</u>

Long-term Liabilities

As of September 30, 2011, 2010, and 2009, the Utility had long-term obligations in the form of a note payable. The note is to a financial institution, bearing interest at 2.78%, collateralized by a lien on the net revenues of the Town of Fort Myers Beach Public Works Services, Inc. Additionally, the Town of Fort Myers Beach, Florida has guaranteed the note with a pledge of its non-ad valorem revenues. The note was re-financed in August 2010.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Notes payable - long term	\$ 2,160,000	\$ 2,340,000	\$ -
Notes payable - short term	-	-	2,520,000
	<u>\$ 2,160,000</u>	<u>\$ 2,340,000</u>	<u>\$ 2,520,000</u>

Additional information on the Utility's long-term debt can be found in Note 6 (page 15) to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

The Town of Fort Myers Beach Public Works Services, Inc. water utility is facing a variety of challenges in the near future. In FY 2009, the management of the utility authorized a comprehensive rate study. The rate study provided the basis for the rate increase that was approved and implemented in 2010.

The existing water distribution system requires extensive capital investment. In February 2008, Boyle Engineering Corporation was contracted by the water utility to prepare an evaluation of the existing water distribution system. The evaluation identified nearly \$6,600,000 of needed improvements to the system. The evaluation is being updated to reflect the current condition of the water system.

The rate increase has been designed to provide adequate funding to service the debt, stabilize the financial position of the utility and provide additional funding for capital improvements. The rate structure will be reviewed again in 2012.

As of October 3, 2011, the Town of Fort Myers Beach Public Works Services, Inc. was dissolved. The water utility will be reported as a proprietary fund in the Town of Fort Myers Beach, FL financial statements. See note 10 for further information.

Requests for Information

This financial report is designed to provide a general overview of the Town of Fort Myers Beach Public Works Services, Inc. finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Town of Fort Myers Beach
Finance Director
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

**TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2011 AND 2010**

	2011	2010
ASSETS		
Current assets		
Cash	\$ 2,763,890	\$ 1,882,896
Accounts receivable, net	518,290	511,787
Total current assets	3,282,180	2,394,683
Noncurrent assets		
Restricted cash	253,753	239,003
Capital assets, net	3,083,180	3,301,244
Total noncurrent assets	3,336,933	3,540,247
Total assets	6,619,113	5,934,930
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Payable from current assets:		
Accounts payable	115,534	97,808
Customer refunds payable	9,437	5,257
Due to Lee County, Florida	304,345	507,445
Due to Town of Fort Myers Beach, Florida	-	229,028
Total payable from current assets	429,316	839,538
Payable from restricted assets:		
Customer deposits	253,753	239,003
Total current liabilities	683,069	1,078,541
Long-term liabilities		
Note payable	2,160,000	2,340,000
Total liabilities	2,843,069	3,418,541
 NET ASSETS		
Invested in capital assets, net of related debt	923,180	961,244
Unrestricted	2,852,864	1,555,145
Total net assets	\$ 3,776,044	\$ 2,516,389

See accompanying Notes to Financial Statements.

**TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Water utility revenue	4,136,484	\$ 3,538,105
OPERATING EXPENSES		
Bulk water	1,357,156	1,331,354
Depreciation expense	250,148	231,324
Management fees	435,780	379,285
Repairs and maintenance	422,860	556,637
Insurance	74,263	79,923
Administrative expense	89,806	156,526
Power	41,503	32,543
Professional services	68,798	43,745
Other operating supplies and expenses	46,229	48,524
Miscellaneous expenses	6,342	7,337
Office expenses	23,679	19,990
Total operating expenses	<u>2,816,564</u>	<u>2,887,188</u>
Operating income	<u>1,319,920</u>	<u>650,917</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	4,843	7,174
Interest expense	<u>(65,108)</u>	<u>(109,763)</u>
Total non-operating expenses	<u>(60,265)</u>	<u>(102,589)</u>
Income before capital contributions	1,259,655	548,328
Capital contributions - connection fees	<u>-</u>	<u>16,778</u>
Change in net assets	1,259,655	565,106
TOTAL NET ASSETS, beginning of year	<u>2,516,389</u>	<u>1,951,283</u>
TOTAL NET ASSETS, end of year	<u>\$ 3,776,044</u>	<u>\$ 2,516,389</u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 4,148,911	\$ 3,488,791
Cash paid to suppliers and others	(2,891,012)	(2,966,745)
Cash paid to employees	(89,806)	(156,526)
Net cash provided by operating activities	1,168,093	365,520
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on note	(180,000)	(180,000)
Interest paid on note	(65,108)	(106,291)
Capital contributions	-	16,778
Acquisition of capital assets	(32,084)	(1,236,491)
Net cash used in capital and related financing activities	(277,192)	(1,506,004)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,843	7,174
Net change in cash and cash equivalents	895,744	(1,133,310)
 CASH AND CASH EQUIVALENTS, beginning of year	2,121,899	3,255,209
 CASH AND CASH EQUIVALENTS, end of year	\$ 3,017,643	\$ 2,121,899
 RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 2,763,890	\$ 1,882,896
Restricted cash	253,753	239,003
Total cash and cash equivalents	\$ 3,017,643	\$ 2,121,899
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,319,920	\$ 650,917
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	250,148	231,324
Net (increase) in:		
Accounts receivable	(6,503)	(68,904)
Net increase (decrease) in:		
Accounts payable	17,726	(177,177)
Due to Lee County, Florida	(203,100)	(290,230)
Due to Town of Fort Myers Beach, Florida	(229,028)	-
Customer refunds payable	4,180	(2,317)
Customer deposits	14,750	21,907
Net cash provided by operating activities	\$ 1,168,093	\$ 365,520

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Fort Myers Beach (the "Town") is a municipality in the State of Florida. It is governed by an elected Town Council, which is governed by State statutes and regulations. The Town Council established the Town of Fort Myers Beach Public Works Services, Inc. (the "Utility") to provide potable water to the incorporated area of the Town. The Utility was incorporated on April 16, 2001, as a not-for-profit organization under the provisions of Internal Revenue Code Section 501(c)(2). The Utility is legally separate from the Town, but the Council acts as its governing Board of Directors. Therefore, the Utility is considered a component unit of the Town. The Utility is reported as a blended component unit within the Town's primary government financial statements. The financial statements of the Utility include all funds, activities and component units for which it is accountable.

Basis of Presentation

The Utility is considered a governmental entity and accounts for its activities using the "governmental model" in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Fund accounting

The Utility uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement focus

The Utility is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the statement of net assets, and the reported net assets (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Utility. The operating statement reports increases (revenues) and decreases (expenses) in total economic net worth.

Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Utility is accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred. Pursuant to GASB Statement Number 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Utility has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

The Utility considers highly liquid investments, including those held as restricted assets, with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

The accounts receivable of the Utility are recorded net of an allowance for doubtful accounts which generally is equivalent to the receivables that are over 120 days past due.

Capital Assets

Capital assets are recorded at cost, or estimated historical cost. Non-depreciable capital assets include land and construction in process. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Computer Equipment	3
South Booster Station	25
North Booster Station	25
North Estero	30
Distribution Lines	15
Generators	10

Operating Income

The Utility's operating income includes all revenues and expenses associated with the organization's daily activities. Interest income and interest expense are excluded from operating income and classified as nonoperating revenues. Contributions received for connection to the system are also excluded from operating income and are classified as capital contribution.

Estimates

Management of the Utility has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principals generally accepted in the United States of America. Actual results could differ from those estimates.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 2 CASH

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Utility's deposits may not be returned to it. In accordance with its policy, all Utility depositories are banks designated by the Florida Chief Financial Officer as qualified public depositories. Chapter 280 of the Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Florida Chief Financial Officer as agent for the public entities. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and nonnegotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Florida Chief Financial Officer eligible collateral at the pledging level required pursuant to Chapter 280. The Florida Security for Public Deposits Act has a procedure for the payment of losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof, and therefore, the Utility is not exposed to custodial credit risk for its deposits.

NOTE 3 ACCOUNTS RECEIVABLE

At September 30, 2011 and 2010, accounts receivable consisted of the following:

	<u>Gross accounts receivable</u>	<u>Less allowance for doubtful accounts</u>	<u>Net accounts receivable</u>
2011:			
Water	\$ 293,178	\$ 13,408	\$ 279,770
Sewer	249,952	11,432	238,520
Total	<u>\$ 543,130</u>	<u>\$ 24,840</u>	<u>\$ 518,290</u>
2010:			
Water	\$ 289,932	\$ 13,421	\$ 276,511
Sewer	246,695	11,419	235,276
Total	<u>\$ 536,627</u>	<u>\$ 24,840</u>	<u>\$ 511,787</u>

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 4 RESTRICTED ASSETS

Restricted assets of the Utility represent monies restricted for the following purposes at September 30, 2011 and 2010:

	2011	2010
Customer deposits	\$ 253,753	\$ 239,003

NOTE 5 CAPITAL ASSETS

Capital assets at September 30, 2011 and 2010, consisted of the following:

	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Land	\$ 305,000	\$ -	\$ -	\$ 305,000
Construction in Process	1,294,095	32,084	(1,304,112)	22,067
Computer Equipment	61,115	-	-	61,115
South Booster Station	362,950	-	-	362,950
North Booster Station	94,701	-	-	94,701
North Estero	-	1,304,112	-	1,304,112
Distribution Lines	3,011,706	-	-	3,011,706
Generators	95,104	-	-	95,104
	5,224,671	1,336,196	(1,304,112)	5,256,755
Accumulated Depreciation	(1,923,427)	(250,148)	-	(2,173,575)
Total	\$ 3,301,244	\$ 1,086,048	\$ (1,304,112)	\$ 3,083,180

	Balance October 1, 2009	Additions	Deletions	Balance September 30, 2010
Land	\$ 305,000	\$ -	\$ -	\$ 305,000
Construction in Process	172,325	1,121,770	-	1,294,095
Computer Equipment	45,364	15,751	-	61,115
South Booster Station	351,950	11,000	-	362,950
North Booster Station	94,701	-	-	94,701
Distribution Lines	2,923,736	87,970	-	3,011,706
Generators	95,104	-	-	95,104
	3,988,180	1,236,491	-	5,224,671
Accumulated Depreciation	(1,692,103)	(231,324)	-	(1,923,427)
Total	\$ 2,296,077	\$ 1,005,167	\$ -	\$ 3,301,244

**TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 6 NOTE PAYABLE

Note payable at September 30, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
<p>Note payable to a financial institution, bearing interest at 2.78 percent, collateralized by a lien on and a pledge of the net revenues of the Utility. Additionally, the Town of Fort Myers Beach, Florida has, by way of resolution, pledged its non-Ad-Valorem revenues for payment of principal and interest on this debt in the event the Utility's net revenues are insufficient to make those payments. The Note was refinanced in August 2010 and matures August 2013.</p>	<u>\$ 2,160,000</u>	<u>\$ 2,340,000</u>

Changes in Long - Term Obligations

The changes in long-term obligations for the years ended September 30, 2011 and 2010, were as follows:

	October 1, 2010	Additions	Retirements	September 30, 2011	Amounts Due Within One Year
Note payable	<u>\$ 2,340,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,160,000</u>	<u>\$ -</u>

	October 1, 2009	Additions	Retirements	September 30, 2010	Amounts Due Within One Year
Note payable	<u>\$ 2,520,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,340,000</u>	<u>\$ -</u>

Annual Maturities of Long-Term Obligations

The annual debt service requirement to pay the note payable at September 30, 2011, was as follows:

Year Ending September 30,	Principal	Interest	Total
2012	\$ -	\$ 30,024	\$ 30,024
2013	2,160,000	76,659	2,236,659
	<u>\$ 2,160,000</u>	<u>\$ 106,683</u>	<u>\$ 2,266,683</u>

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 7 RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Utility, through the Town, participated in a public entity risk pool administered by Florida League of Cities, Inc. for general/professional liability, automobile, property and workers compensation. The Utility pays an annual premium to the Florida League of Cities, Inc. for this insurance program. Participation in this risk pool is non-assessable.

The Florida League of Cities, Inc. published a financial report for the year ended September 30, 2011, which can be obtained from the Florida League of Cities, Inc., Public Risk Service, 135 East Colonial Drive, Orlando, Florida 32853-0065.

The Utility retains the risk of loss up to a deductible amount (ranging from \$0 to \$500) with the risk of loss in excess of this amount transferred to the pool with limits of liability of \$1,000,000 to \$3,000,000, per occurrence.

NOTE 8 COMMITMENTS AND CONTINGENCIES

On June 1, 2001, Woodard & Curran, Inc. was retained, pursuant to a contract with the Utility, to provide for the operation and maintenance of the Utility's water system. The terms of the agreement were most recently renewed on April 18, 2011, retroactive to January 1, 2011 and extending through September 30, 2014. Pursuant to the agreement the Utility shall pay Woodard & Curran \$37,884 monthly for the first year. For subsequent years, the monthly compensation is to be reviewed and adjusted as agreed upon by the Town and Woodard & Curran.

NOTE 9 ECONOMIC DEPENDENCY

On August 3, 2001, a Bulk Water Agreement was entered into with Lee County, Florida, to provide the Utility with potable water. Lee County is currently the only source of the Utility's potable water that it supplies to the residents of the Town of Fort Myers Beach. The Bulk Water Agreement is for twenty-five years. The inter-local agreement provides that the County may, from time to time, increase the rate charged for cost of bulk water provided to the Utility. At September 30, 2011, the rate charged from Lee County was \$3.46 per 1,000 gallons.

NOTE 10 SUBSEQUENT EVENT

As of October 1, 2011 the Utility is no longer a legally separate entity from the Town. The Utility will continue to be reported as a propriety fund in the Town's financial statements but will no longer issue its own financial statements.

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

Board of Directors
Town of Fort Myers Beach Public Works Services, Inc.
Fort Myers Beach, Florida

We have audited the basic financial statements of the Town of Fort Myers Beach Public Works Services, Inc. (the "Utility"), a component unit of the Town of Fort Myers Beach, Florida, as of and for the year ended September 30, 2011, and have issued our report thereon dated May 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

2009-1

Criteria

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards.

Condition

As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause

The Utility has a limited number of personnel.

Effect

The design of the controls over the financial reporting process affects the Utility's ability to report their financial data consistent with the assertions of management.

Recommendation

We recommend management be aware of the accounting and financial reporting standards applicable to the Utility. Should the Utility elect to establish the full oversight of the financial statement preparation process, additional policies and procedures would be required.

2009-2

Criteria

Management is responsible for establishing and maintaining internal controls for the proper recording of all the Utility's receipts and disbursements, including year-end accruals and all capital asset activity.

Condition

As part of the audit, we proposed audit adjustments to revise the Utility's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts, capitalization of capital assets that were improperly booked as repairs and maintenance expense, and net asset reclassifications.

Effect

The design of the internal controls over recording receipts and disbursements, including reclassifications, could affect the ability of the Utility to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation

We recommend management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

2009-3

Criteria

The information and communication components of internal control include timely reporting and accurate financial information.

Condition

Complete and accurate monthly financial information is not being prepared and presented to the Board of Directors in a timely manner.

Effect

Lack of timely review of complete financial information by the Board may impair the Board's ability to provide accurate and timely oversight to the accounting and reporting function of the Utility.

Recommendation

We recommend the Board meet more regularly and that complete and accurate financial information be prepared and distributed at each Board meeting.

2009-4

Criteria

Management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the Utility. In addition, management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition

The Utility does not have adequate segregation of the accounting functions or adequate management oversight surrounding billings and cash collections, which is necessary to ensure adequate internal controls.

Cause

The office manager of Woodard & Curran is responsible for all aspects of Utility billing and collections. There is no supervisory review performed by other members of management of Woodard & Curran or the Town of Fort Myers Beach.

Effect

The design of the internal controls over financial reporting could affect the ability of the Utility to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the Utility's inability to prevent/detect material misappropriation of Utility assets.

Recommendation

We recommend Utility management be aware of the lack of segregation of duties and lack of management oversight within the accounting functions and assess the need to establish additional controls over the billings and collections process. If additional segregation is not feasible, we recommend Utility management implement oversight procedures to ensure the internal control policies and procedures are being followed by Utility staff.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility'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 non-compliance which we are required to report under *Government Auditing Standards*.

The Utility's responses to the findings identified in our audit are described in the accompanying Response to the Management Letter. We did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management of the Utility, others within the entity, and the Auditor General of the State of Florida, and is not intended to be, and should not be, used by anyone other than these specified parties.



CERTIFIED PUBLIC ACCOUNTANTS

Bradenton, Florida
May 31, 2012

Town of Fort Myers Beach



To: Terry Stewart, General Manager
Neil Unruh, Shinn & Company LLC

From: Evelyn Wicks, Finance Director

Date: April 12, 2012

Subject: Management letter for year ending 9/30/11 – Public Works Services, Inc.

Comments

2009-1 Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards. As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Management's Response

The Town accounting department is very limited. Some items that would normally be developed by the staff are often delegated to outside firms. This situation has remained the same for FY 2011 because the Town does not have sufficient resources to hire additional accounting professionals. The 2012 budget authorized one additional staff accountant to primarily work with the Water Utility. That person has been hired and I anticipate that the finance staff will provide a greater level of assistance in the development of the financial statements and notes to the financial statements.

2009-2 Management is responsible for establishing and maintaining internal controls for the proper recording of all the utility's receipts and disbursements, including year-end accruals and all capital asset activity. As part of the audit, we proposed audit adjustments to revise the utility's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts, capitalization of capital assets that were improperly booked as repairs and maintenance expense, and net asset reclassifications.

Management's Response

Year-end audit adjustments including accruals and capital asset activity for FY 2011 were prepared by the auditors. The finance staff reviews disbursements and revenues to insure they are classified correctly. The 2012 budget authorized one additional staff accountant to primarily work with the Water Utility. That person has been hired and I anticipate that the finance staff will prepare many of the year end entries and monitor the expenditures and revenues classifications throughout the year.

2009-3 The information and communication components of internal control include timely reporting and accurate financial information. Complete and accurate monthly financial information is not being prepared and presented to the Board of Directors in a timely manner.

Management's Response

The office manager of the water utility is responsible for all aspects of billing, collections and accounting functions. The utility uses a software package provided by the Town years ago. This software program does not communicate with the Town's financial accounting. Therefore, all revenue, expenses and other accounting functions are performed during the month at the utility office and then must be manually reposted to the Town's accounting system. To give the Town greater access to the financial records of the water utility, we plan to have a computer workstation placed at Town Hall to allow Finance "read-only" access to the records and individual customer accounts. Town staff has been researching a number of options to upgrade the accounting software system for both the water utility and town. I have included a request for a new software package in the FY 2013 budget.

2009-04 Management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the company. In addition, management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective. The utility does not have adequate segregation of the accounting functions or adequate management oversight surrounding billings and cash collections, which is necessary to ensure adequate internal controls.

Management's Response

The management of the utility understands the issue and recognizes the need for more oversight of the current financial operations. These controls should include reviews of record keeping activities, billing documents and cash collection procedures. At a minimum, quarterly reviews should be accomplished through on-site visits to the utility. The Town accounting staff does all bank reconciliations and accounts payable for the water utility. As mentioned earlier, the software program used by the utility does not communicate with the Town's accounting financial software. Combining the accounting functions for the town and utility will provide more efficient, direct and timely oversight of the water utility activities. Town staff has been researching a number of options to upgrade the accounting software system for both the water utility and town. I have included a request for a new software package in the FY 2013 budget.