



TOWN OF LAKE CLARKE SHORES, FLORIDA



**FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON**

FISCAL YEAR ENDED SEPTEMBER 30, 2012

TOWN OF LAKE CLARKE SHORES, FLORIDA
SEPTEMBER 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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The Honorable Mayor and Members of the Town Council
Town of Lake Clarke Shores, 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 Lake Clarke Shores, Florida as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Lake Clarke Shores, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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 of Lake Clarke Shores, Florida, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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, 2013 on our consideration of the Town of Lake Clarke Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope

of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10, the budgetary comparison information on pages 48 and 49, and the Schedule of Funding Progress – Other Postemployment Benefits on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
May 31, 2013

Management’s Discussion and Analysis

The Town of Lake Clarke Shores (the “Town”) discussion and analysis is designed to:

- A. Assist the reader in focusing on significant financial issues
- B. Provide an overview of the Town’s financial activity
- C. Identify changes in the Town’s financial position
- D. Identify any material deviations from the financial plan (approved budget)
- E. Identify individual fund issues or concerns

Since the Management’s Discussion and Analysis (MD&A) is designed to focus on the current year’s activities, resulting changes and currently known facts, please read it in conjunction with the Town’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Ø The assets of the Town of Lake Clarke Shores exceeded its liabilities at the close of the most recent fiscal year by \$14,275,145 (net assets). Of this amount, \$3,406,084 (unrestricted net assets) may be used to meet the government’s ongoing obligations to citizens and creditors.
- Ø The governmental activities revenues were \$2,261,830 at the close of fiscal year 2012.
- Ø The business-type activities revenues were \$2,875,870 at the close of fiscal year 2012.
- Ø The total cost of all Town programs was \$5,321,790 during the fiscal year 2012.
- Ø At the end of the 2012 fiscal year, unassigned fund balance for the general fund was \$966,828 or 39% of total general fund expenditures.

USING THIS REPORT

Management’s Discussion and Analysis introduces the Town’s financial statements which are described in the following graphic.

MD&A	Management’s Discussion & Analysis (Required supplemental information)				
BASIC FINANCIAL STATEMENTS	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;">Government-Wide Financial Statements (pages 11-13)</td> <td style="width: 50%; border: none;">Fund Financial Statements (Pages 14-20)</td> </tr> <tr> <td colspan="2" style="border: none; text-align: center;">Notes to the Financial Statements (Pages 21-47)</td> </tr> </table>	Government-Wide Financial Statements (pages 11-13)	Fund Financial Statements (Pages 14-20)	Notes to the Financial Statements (Pages 21-47)	
Government-Wide Financial Statements (pages 11-13)	Fund Financial Statements (Pages 14-20)				
Notes to the Financial Statements (Pages 21-47)					
REQUIRED SUPPLEMENTAL INFORMATION	Required Supplementary Information (Other than MD&A) (Pages 48-50)				

Management's Discussion and Analysis

The financial statements' focus is on both the Town as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government), and enhance the Town's accountability.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Lake Clarke Shores' finances, in a manner similar to a private-sector business. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net assets and how they have changed. Net assets – the difference between the Town's assets and liabilities – are one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are indicators of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- Ø Governmental activities – Most of the Town's basic services are reported here, including the police, public services and general administration. Property taxes, franchise fees and state shared revenue finance most of these activities.
- Ø Business-type activities – The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fund Financial Statements

Our analysis of the Town's major funds begins on page 14. The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for a particular purpose.

- Ø Governmental Funds – Most of the Town's basic services are included in a governmental fund, which focuses on (1) how cash and other financial assets can be readily converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

Management's Discussion and Analysis

Ø Proprietary Funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long and short-term financial information.

§ The Town's enterprise fund (one type of proprietary fund) is the same as its business type activities, but provides more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net Assets

The Town's combined net assets for the fiscal year ending 2012 are reported at \$14,275,145. Net assets of the Town's governmental activities for the fiscal year ending 2012 are \$7,189,337. The net assets of our business-type activities are reported at \$7,085,808 for the fiscal year ending 2012. Overall the financial position of the total primary government is less than the prior year, with a decrease of \$276,930 in net assets for the governmental activities and an increase of \$92,840 in net assets for the business-type activities.

Town of Lake Clarke Shores Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Current and other Assets	\$1,086,984	\$1,105,320	\$ 4,125,236	\$ 4,095,723	\$ 5,212,220	\$ 5,201,043
Capital Assets, Net	<u>7,172,534</u>	<u>6,891,263</u>	<u>6,240,679</u>	<u>6,099,047</u>	<u>13,413,213</u>	<u>12,990,310</u>
TOTAL ASSETS	<u>8,259,518</u>	<u>7,996,583</u>	<u>10,365,915</u>	<u>10,194,770</u>	<u>18,625,433</u>	<u>18,191,353</u>
Current and Other Liabilities	74,057	132,310	340,488	474,463	414,545	606,773
Long Term liabilities Outstanding	<u>719,194</u>	<u>674,936</u>	<u>3,032,459</u>	<u>2,634,499</u>	<u>3,751,653</u>	<u>3,309,435</u>
TOTAL LIABILITIES	<u>793,251</u>	<u>807,246</u>	<u>3,372,947</u>	<u>3,108,962</u>	<u>4,166,198</u>	<u>3,916,208</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	6,519,421	6,308,566	3,228,623	3,483,618	9,748,044	9,792,184
Restricted	18,116	25,241	1,091,180	1,051,636	1,109,296	1,076,877
Unrestricted	<u>928,730</u>	<u>855,530</u>	<u>2,673,165</u>	<u>2,550,554</u>	<u>3,601,895</u>	<u>3,406,084</u>
TOTAL NET ASSETS	<u>\$7,466,267</u>	<u>\$7,189,337</u>	<u>\$6,992,968</u>	<u>\$7,085,808</u>	<u>\$14,459,235</u>	<u>\$14,275,145</u>

Management's Discussion and Analysis

Changes in Net Assets

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

- Ø The decrease in net assets for governmental activities totaled \$276,930.
- Ø The business-type net assets increased by \$92,840 during fiscal year 2012 due to an increase in operating revenues.

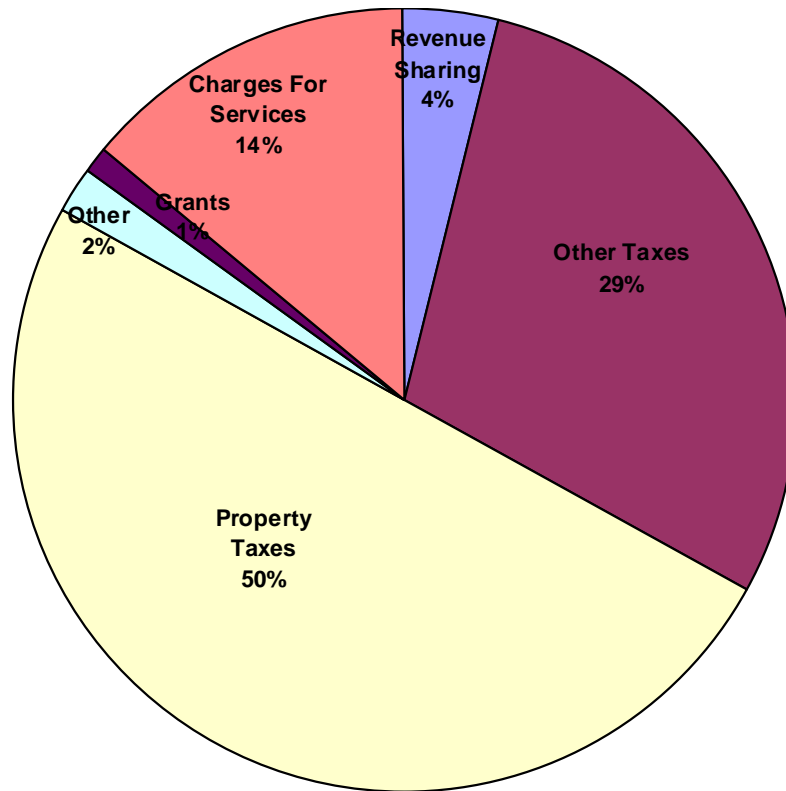
Town of Lake Clarke Shores Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Revenues:						
<i>Program Revenues:</i>						
Charges for services	\$ 234,454	\$ 323,956	\$2,704,019	\$2,803,980	\$2,938,473	\$ 3,127,936
Operating grants	10,898	13,966			10,898	13,966
Capital grants						
Culture and recreation	9,637	1,000			9,637	1,000
<i>General Revenues:</i>						
Taxes	1,825,068	1,780,643			1,825,068	1,780,643
State revenue sharing	95,216	96,285			95,216	96,285
Other	38,211	45,980	85,335	71,890	123,546	117,870
Total Revenues	<u>2,213,484</u>	<u>2,261,830</u>	<u>2,789,354</u>	<u>2,875,870</u>	<u>5,002,838</u>	<u>5,137,700</u>
Expenses:						
<i>Governmental Type Activities:</i>						
General government	561,551	564,108			561,551	564,108
Public safety	1,330,061	1,447,416			1,330,061	1,447,416
Culture and recreation	92,807	94,792			92,807	94,792
Highways and streets	225,304	254,082			225,304	254,082
Physical environment	329,351	344,552			329,351	344,552
Interest on long-term debt	26,559	23,810			26,559	23,810
<i>Business-Type Activities:</i>						
Purchased utilities			1,120,286	1,292,335	1,120,286	1,292,335
Personal and contractual services			573,415	652,407	573,415	652,407
Repair and maintenance			60,046	104,376	60,046	104,376
Utilities and supplies			52,719	58,633	52,719	58,633
Intragovernmental expense			35,000	35,000	35,000	35,000
Other charges			79,221	118,132	79,221	118,132
Interest and fiscal charges			148,978	131,310	148,978	131,310
Depreciation and amortization			161,909	200,837	161,909	200,837
Total Expenses	<u>2,565,633</u>	<u>2,728,760</u>	<u>2,231,574</u>	<u>2,593,030</u>	<u>4,797,207</u>	<u>5,321,790</u>
Excess (deficiency) Before Transfers	<u>(352,149)</u>	<u>(466,930)</u>	<u>557,780</u>	<u>282,840</u>	<u>205,631</u>	<u>(184,090)</u>
Transfers	<u>190,000</u>	<u>190,000</u>	<u>(190,000)</u>	<u>(190,000)</u>		
Change in Net Assets	<u>(162,149)</u>	<u>(276,930)</u>	<u>367,780</u>	<u>92,840</u>	<u>205,631</u>	<u>(184,090)</u>
Net Assets – Beginning	<u>7,628,416</u>	<u>7,466,267</u>	<u>6,625,188</u>	<u>6,992,968</u>	<u>14,253,604</u>	<u>14,459,235</u>
Net Assets – Ending	<u>\$ 7,466,267</u>	<u>\$ 7,189,337</u>	<u>\$ 6,992,968</u>	<u>\$7,085,808</u>	<u>\$14,459,235</u>	<u>\$14,275,145</u>

Management's Discussion and Analysis

Governmental Activities – Revenues by Source

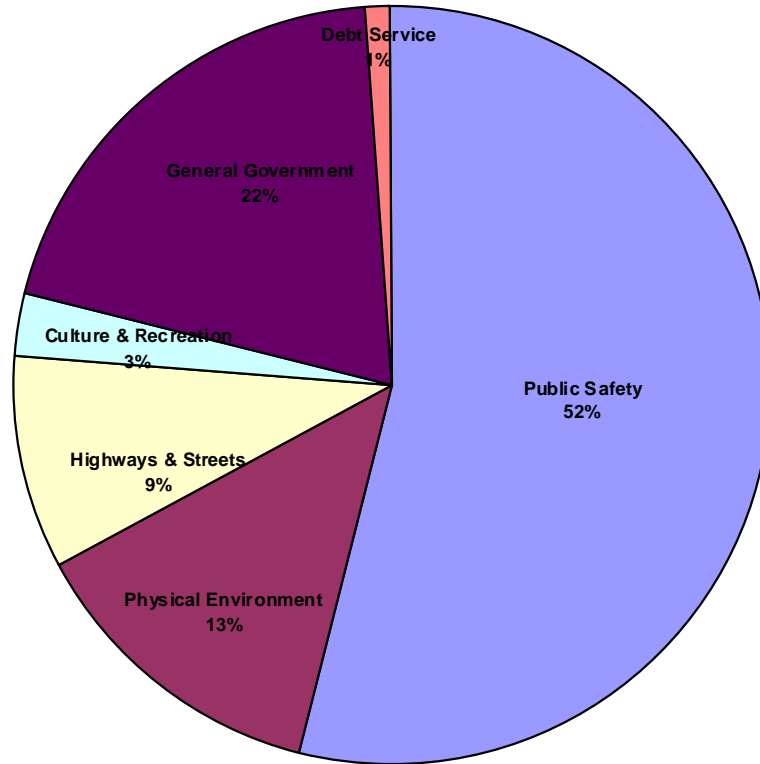
Approximately 79% of the Town's governmental revenue comes from taxes such as property, franchise and sales use. Property taxes alone account for nearly 63% of the various types of taxes and 49% of all revenues. (Please see chart below.)



Management's Discussion and Analysis

Governmental Activities – Expenses

The Town's governmental expenses cover a range of services, with 54% relating to public safety. The Town completed construction of a new municipal complex that included a Town Hall and Police Station in 2009 creating a debt service expense of 1% total governmental expenses. (Please see chart below.)



Financial Analysis of the Governmental Fund on the Fund Basis

As the Town of Lake Clarke Shores completed the year, the general fund reported an unassigned fund balance of \$966,828 a decrease of \$49,367 from the previous fiscal year. The decrease was a slight improvement from last year.

Management's Discussion and Analysis

Financial Analysis of the Proprietary Fund

Unrestricted net assets of the water fund at the end of the fiscal year 2012 were \$2,550,554. This represents a decrease of \$122,611. The total net assets of the water fund were \$7,085,808 at the end of fiscal year 2012, an increase of \$92,840 from the prior year.

General Fund Budgetary Highlights

The actual expenditures were \$171,375 less than the budget amounts. Revenues were \$48,569 more than the budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012 the Town had invested \$12,990,310 in a broad range of capital assets including police equipment, buildings, infrastructure, intangible assets, and water improvements. Additional information can be found in Note 6 to the financial statements.

Town of Lake Clarke Shores Capital Assets (Net of depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Land	\$ 517,753	\$ 517,753	\$ 88,760	\$ 88,760	\$ 606,513	\$ 606,513
Buildings	2,941,852	2,877,751			2,941,852	2,877,751
Improvements other than buildings	1,521,571	1,500,174	4,154,548	3,986,675	5,676,119	5,486,849
Infrastructure	1,946,600	1,784,384			1,946,600	1,784,384
Equipment	244,758	211,201	56,779	49,152	301,537	260,353
Construction in progress				37,956		37,956
Intangible assets			<u>1,940,592</u>	<u>1,936,504</u>	<u>1,940,592</u>	<u>1,936,504</u>
TOTALS	<u>\$7,172,534</u>	<u>\$6,891,263</u>	<u>\$6,240,679</u>	<u>\$6,099,047</u>	<u>\$13,413,213</u>	<u>\$12,990,310</u>

Management's Discussion and Analysis

Debt

As of September 30, 2012, the Town had \$862,403 in a Promissory Note Series 2004, \$1,813,003 in a Promissory Note Series 2005, \$582,697 in a Promissory Note Series 2007 and \$89,171 in long term compensated absences as shown in the following table: Additional information can be found in Note 8 to the financial statements.

Town of Lake Clarke Shores Outstanding Debt

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Promissory Note Series 2004	\$	\$	\$1,059,218	\$862,403	\$1,059,218	\$862,403
Promissory Note Series 2005			2,031,837	1,813,003	2,031,837	1,813,003
Less Deferred Amount on Refunding			(78,999)	(59,977)	(78,999)	(59,977)
Promissory Note Series 2007	653,113	582,697			653,113	582,697
Other Postemployment Benefits	10,910	16,579	3,642	5,559	14,552	22,138
Compensated Absences	<u>55,171</u>	<u>75,660</u>	<u>16,761</u>	<u>13,511</u>	<u>71,932</u>	<u>89,171</u>
TOTALS	<u>\$719,194</u>	<u>\$674,936</u>	<u>\$3,032,459</u>	<u>\$2,634,499</u>	<u>\$3,751,653</u>	<u>\$3,309,435</u>

Other Postemployment Benefits (OPEB)

As a result of GASB Statement No. 45 the Town's annual OPEB cost was \$9,556 and the net OPEB obligation as of September 30, 2012 was \$22,138

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2013 fiscal year, general fund revenue projections have been moderately reduced due legislative tax reform and property devaluation.

- Ø The budget is balanced.
- Ø Most user fee rates should increase for fiscal year 2013 due to an increase in the CPI and changes implemented as a result of a rate study.
- Ø The millage rate of 6.2798 was less than the calculated rolled-back rate of 6.3284.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives and disburses. If you have any questions about this report or need additional information, please contact the Town of Lake Clarke Shores, 1701 Barbados Road, Lake Clarke Shores, FL 33406.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Net Assets
September 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 292,224	\$ 841,192	\$ 1,133,416
Investments	691,633	1,164,072	1,855,705
Accounts receivable (net)	58,602	239,282	297,884
Due from other governments	37,620		37,620
Assessments receivable		472,978	472,978
Inventories		28,205	28,205
Deferred charges		23,906	23,906
Security deposits		12,100	12,100
Restricted assets			
Cash and cash equivalents	25,241	1,299,383	1,324,624
Investments		14,605	14,605
Capital assets			
Non-depreciable			
Land	517,753	88,760	606,513
Intangible assets		1,870,424	1,870,424
Construction in progress		37,956	37,956
Depreciable			
Buildings	3,205,037		3,205,037
Improvements other than buildings	1,869,869	5,897,892	7,767,761
Equipment	993,492	472,562	1,466,054
Infrastructure	6,488,657		6,488,657
Less: accumulated depreciation	(6,183,545)	(2,334,627)	(8,518,172)
Intangible assets		163,500	163,500
Less: accumulated amortization		(97,420)	(97,420)
Total assets	7,996,583	10,194,770	18,191,353
Liabilities			
Accounts payable	78,258	171,553	249,811
Contracts payable		37,956	37,956
Deferred revenue	24,602		24,602
Accrued liabilities	10,391	2,602	12,993
Accrued interest payable	19,059	40,072	59,131
Deposits payable from restricted assets		222,280	222,280
Non-current liabilities			
Due within one year	149,327	447,724	597,051
Due in more than one year	525,609	2,186,775	2,712,384
Total liabilities	807,246	3,108,962	3,916,208
Net Assets			
Invested in capital assets, net of related debt	6,308,566	3,483,618	9,792,184
Restricted for			
Debt service		551,636	551,636
Renewal and replacement		500,000	500,000
Law Enforcement	25,241		25,241
Unrestricted	855,530	2,550,554	3,406,084
Total net assets	\$ 7,189,337	\$ 7,085,808	\$ 14,275,145

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Activities
For the Year Ended September 30, 2012

Function/ Program Activities	Expenses	Program Revenues	
		Charges For Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 564,108	\$ 157,091	\$ 4,318
Public safety	1,447,416	162,838	
Highways and streets	254,082		
Physical environment	344,552		
Culture and recreation	94,792	4,027	9,648
Interest on long-term debt	23,810		
Total governmental activities	<u>2,728,760</u>	<u>323,956</u>	<u>13,966</u>
Business-type activities:			
Enterprise-water and sewer utility	<u>2,593,030</u>	<u>2,803,980</u>	
Total business-type activities	<u>2,593,030</u>	<u>2,803,980</u>	
Total government	<u>\$ 5,321,790</u>	<u>\$ 3,127,936</u>	<u>\$ 13,966</u>

General revenues:

Property taxes
Telecommunication service taxes
Sales and use taxes
Franchise taxes
Intergovernmental not restricted to specific programs
Investment earnings
Net increase in fair value of investments
Miscellaneous
Transfers
Total general revenues and transfers

Change in net assets

Net assets, beginning of year
Net assets, end of year

Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$	\$	\$	\$
1,000	(402,699)		(402,699)
	(1,283,578)		(1,283,578)
	(254,082)		(254,082)
	(344,552)		(344,552)
	(81,117)		(81,117)
	(23,810)		(23,810)
<u>1,000</u>	<u>(2,389,838)</u>		<u>(2,389,838)</u>
		210,950	210,950
		<u>210,950</u>	<u>210,950</u>
<u>\$ 1,000</u>	<u>(2,389,838)</u>	<u>210,950</u>	<u>(2,178,888)</u>
	1,113,704		1,113,704
	159,058		159,058
	324,656		324,656
	183,225		183,225
	96,285		96,285
	12,774	60,847	73,621
	4,499	11,043	15,542
	28,707		28,707
	190,000	(190,000)	
	<u>2,112,908</u>	<u>(118,110)</u>	<u>1,994,798</u>
	(276,930)	92,840	(184,090)
	7,466,267	6,992,968	14,459,235
<u>\$</u>	<u>7,189,337</u>	<u>\$ 7,085,808</u>	<u>\$ 14,275,145</u>

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2012

	General	Nonmajor Governmental Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 292,224	\$	\$ 292,224
Cash and cash equivalents - restricted		25,241	25,241
Investments	691,633		691,633
Accounts receivable (net)	58,602		58,602
Due from other governments	37,620		37,620
Total assets	\$ 1,080,079	\$ 25,241	\$ 1,105,320
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 78,258	\$	\$ 78,258
Accrued liabilities	10,391		10,391
Deferred revenue	24,602		24,602
Total liabilities	113,251		113,251
Fund balances			
Restricted for:			
Public safety		25,241	25,241
Unassigned	966,828		966,828
Total fund balances	966,828	25,241	992,069
Total liabilities and fund balances	\$ 1,080,079	\$ 25,241	\$ 1,105,320

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Reconciliation of the Balance Sheet - Governmental Funds
To the Statement of Net Assets
Governmental Funds
September 30, 2012

Fund balances - total governmental funds		\$ 992,069
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 13,074,808	
Less accumulated depreciation	<u>(6,183,545)</u>	6,891,263
Long-term liabilities, including compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities at year end consist of:		
Note payable		(582,697)
Accrued interest payable		(19,059)
Other postemployment benefits		(16,579)
Compensated absences		<u>(75,660)</u>
Net assets of governmental activities		<u>\$ 7,189,337</u>

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 1,301,990	\$	\$ 1,301,990
Licenses and permits	290,160		290,160
Intergovernmental	436,294		436,294
Fines and forfeitures	46,342	64,789	111,131
Interest income	12,774		12,774
Net increase in fair value of investments	4,499		4,499
Intragovernmental	35,000		35,000
Charges for services	49,195		49,195
Miscellaneous	55,787		55,787
Total revenues	<u>2,232,041</u>	<u>64,789</u>	<u>2,296,830</u>
Expenditures:			
Current			
General government	522,738		522,738
Public safety	1,342,031		1,342,031
Highways and streets	69,969		69,969
Physical environment	344,552		344,552
Culture and recreation	61,732		61,732
Capital outlay	33,835	57,664	91,499
Debt service			
Principal	70,416		70,416
Interest	26,135		26,135
Total expenditures	<u>2,471,408</u>	<u>57,664</u>	<u>2,529,072</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(239,367)</u>	<u>7,125</u>	<u>(232,242)</u>
Other financing sources (uses):			
Transfers in	<u>190,000</u>		<u>190,000</u>
Total other financing sources (uses)	<u>190,000</u>		<u>190,000</u>
Net change in fund balance	(49,367)	7,125	(42,242)
Fund balances, beginning of year	<u>1,016,195</u>	<u>18,116</u>	<u>1,034,311</u>
Fund balances, end of year	<u>\$ 966,828</u>	<u>\$ 25,241</u>	<u>\$ 992,069</u>

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of the Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012

Net change in fund balances - total governmental funds \$ (42,242)

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

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

Expenditures for capital assets	\$ 77,490	
Less: current year depreciation	<u>(358,761)</u>	
		(281,271)

The repayment of the principal on long-term debt consumes current financial resources of governmental funds, but does not have any effect on the changes in net assets of governmental activities and are not recorded in the Statement of Activities

Principal payments on debt	70,416
Decrease in accrued interest payable on long-term debt	2,325

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in other postemployment benefits	(5,669)
Change in compensated absences	<u>(20,489)</u>

Change in net assets	<u><u>\$ (276,930)</u></u>
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See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Net Assets
Proprietary Fund
September 30, 2012

	Enterprise
Assets	
Current assets	
Cash and cash equivalents	\$ 841,192
Investments	1,164,072
Accounts receivable (net)	239,282
Assessments receivable	472,978
Deferred charges	23,906
Security deposits	12,100
Supplies inventory	28,205
Restricted assets	
Cash and cash equivalents	1,299,383
Investments	14,605
Total current assets	4,095,723
Non-current assets	
Capital assets	
Non depreciable	
Land	88,760
Intangible assets	1,870,424
Construction in progress	37,956
Depreciable	
Improvements other than buildings	5,897,892
Equipment	472,562
Less accumulated depreciation	(2,334,627)
Intangible assets	163,500
Less accumulated amortization	(97,420)
Total non-current assets	6,099,047
Total assets	10,194,770
Liabilities	
Current liabilities	
Accounts payable	171,553
Contracts payable	37,956
Accrued Liabilities	2,602
Compensated absences payable	13,511
Notes payable - current portion	434,213
Payable from restricted assets	
Accrued interest payable	40,072
Customer Deposits	222,280
Total current liabilities	922,187
Non-current liabilities	
Notes payable	2,181,216
Other postemployment benefits	5,559
Total non-current liabilities	2,186,775
Total liabilities	3,108,962
Net Assets	
Invested in capital assets, net of related debt	3,483,618
Restricted for	
Debt service	551,636
Renewal and replacement	500,000
Unrestricted	2,550,554
Total net assets	\$ 7,085,808

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2012

	Enterprise
Operating revenue	
Charges for services	\$ 2,803,980
Total operating revenues	2,803,980
Operating expenses	
Purchased utilities	1,292,335
Personal services	434,638
Contractual services	217,769
Supplies	39,701
Utilities and communications	18,932
Repairs and maintenance	104,376
Intragovernmental expense	35,000
Other charges	86,132
Bad debt	32,000
Depreciation	196,749
Amortization	4,088
Total operating expenses	2,461,720
Operating income	342,260
Nonoperating revenues (expenses)	
Investment earnings	60,847
Net increase in fair value of investments	11,043
Interest expense and fiscal charges	(131,310)
Total nonoperating revenues (expenses)	(59,420)
Net income before capital contributions and transfers	282,840
Transfers to other funds	(190,000)
Change in net assets	92,840
Net assets - beginning	6,992,968
Net assets - ending	\$ 7,085,808

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2012

	<u>Enterprise</u>
Cash flows from operating activities:	
Receipts from customers	\$ 2,802,614
Payments to suppliers for goods or services	(1,655,547)
Payments to employees for services	(435,971)
Payments for interfund services used	<u>(35,000)</u>
Net cash provided by operating activities	<u>676,096</u>
Cash flows from non-capital financing activities:	
Transfers from (to) other funds	<u>(190,000)</u>
Net cash (used) by non-capital financing activities	<u>(190,000)</u>
Cash flows from capital and related financing activities:	
Special assessments	230,653
Interest paid on debt	(112,858)
Principal paid on debt	(415,649)
Acquisition of capital assets	<u>(33,349)</u>
Net cash (used) by capital and related financing activities	<u>(331,203)</u>
Cash flows from investing activities:	
Purchase of investments	(1,224)
Interest and dividends on investments	<u>102,704</u>
Net cash provided by investing activities	<u>101,480</u>
Net increase in cash and cash equivalents	256,373
Cash and cash equivalents at beginning of year	<u>1,884,202</u>
Cash and cash equivalents at end of year	<u>\$ 2,140,575</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 342,260
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	196,749
Amortization	4,088
Change in assets and liabilities	
Decrease in accounts receivable	24,989
Decrease in inventories	7,919
Increase in accounts payable	95,779
Increase in accrued liabilities	1,917
Increase in deposits	5,645
Decrease in compensated absences	<u>(3,250)</u>
Total adjustments	<u>333,836</u>
Net cash provided by operating activities	<u>\$ 676,096</u>
Cash and cash equivalents:	
Unrestricted	\$ 841,192
Restricted	<u>1,299,383</u>
Total cash and cash equivalents	<u>\$ 2,140,575</u>
Noncash operating activities	
Bad debt expense	\$ 32,000
Noncash capital financing activities	
Amortization of deferred loss on refunding	19,022
Amortization of loan issue costs	<u>4,834</u>
Total noncash activities	<u>\$ 55,856</u>

See notes to the financial statements

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Town of Lake Clarke Shores, Florida, was incorporated in 1957 pursuant to Chapter 57-1478, Laws of Florida. The Town is governed by an elected Mayor, Vice Mayor, President Pro-Tem, and the Town Council, which appoints a Town Administrator. The Town’s major operations include public safety (police and building inspection), water and sewer systems, sanitation, streets and roads, culture and recreation, and general administrative services.

As required by generally accepted accounting principles, these general purpose financial statements present the government and its component units. Component units are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the Town’s financial statements to be misleading or incomplete. The primary government is considered financially accountable if it appoints a voting majority of an organization’s governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization’s governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that no component units exist which would require inclusion in this report. Further, the Town is not aware of any entity which would consider the Town to be a component unit.

Government-wide Financial Statements

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

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

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

Fund Financial Statements:

The underlying accounting system for the Town is organized and operated on the basis of separate funds, each of which is considered to be 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, revenue, and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds used by the Town are classified into two categories: governmental and proprietary. Separate financial statements are provided for governmental funds and proprietary funds.

Governmental fund financial statements include a balance sheet and a statement of revenue, expenditures, and changes in fund balances for all major governmental funds and non-major governmental funds in the aggregate.

Proprietary fund financial statements include a statement of net assets and a statement of revenue, expenses, and changes in fund net assets, and a statement of cash flows for the Town's major proprietary fund

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Town's water and sewer function and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Governmental Funds

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

Fines and permit revenues are not susceptible to accrual because, generally, they are not measurable until received in cash. Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenues, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental fund:

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

Proprietary Funds

Proprietary 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 the governing body has decided that periodic determination of revenues earned, expenses incurred,

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds (Continued)

and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses report on the costs to maintain the proprietary systems, the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports one proprietary fund. The Enterprise Fund is used to account for operations that provide services on a user charge basis to the public and for activities where periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes. Proprietary fund activities and basis of accounting are similar to those often found in the private sector. The Town's proprietary activities consist of a water treatment and distribution system and a sewage collection system.

The Town has elected to not apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, as permitted by Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in demand accounts and money market accounts. For the purposes of the statement of cash flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value, which is determined by using various third party pricing sources. The Local Government Surplus Funds Trust Fund, administered by the Florida State Board of Administration is a "2A-7 like" pool and, thus, these investments are valued using the pooled share price.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are valued at cost determined on a first-in, first-out basis. Inventories in the Enterprise Fund consist of expendable parts and supplies held for consumption. The initial cost is recorded as an asset at the time the individual inventory items are purchased and is charged against operations in the period when used.

Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In governmental fund financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

Accounts Receivable

Accounts receivable consist primarily of amounts due from local businesses for franchise fees and amounts due from individuals for water and sewer services. Accounts receivable include billed and unbilled amounts and are reported net of an allowance for doubtful accounts.

Capital Assets

Capital assets, which include plant, property, equipment, and infrastructure assets (e.g. roads, bridges, and sidewalks) are reported in the applicable governmental or business-type activities columns in the governmental-wide financial statements. Effective October 1, 2011, the Town increased the capitalization threshold from \$750 for all classes of capital assets to the following amounts:

Building	\$10,000
Improvements other than buildings	10,000
Infrastructure	10,000
Equipment	5,000

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

The change was made prospectively, and all capital assets placed into service prior to October 1, 2011 will remain capitalized. Such assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34, but the Town has elected to report major general infrastructure assets retroactively. Depreciation has been provided over the useful lives using the straight line method. The costs of normal maintenance and repairs that do not add to the productive capacity of the asset or materially extend asset lives are not capitalized. The estimated useful lives are as follows:

Buildings	25 years
Improvements other than buildings	10-30 years
Infrastructure	25-40 years
Equipment	5-26 years

Compensated Absences

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

All vacation, sick leave, and sabbatical leave is accrued when incurred in the government-wide, and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Town's employees are granted compensated absence pay for vacation and sick leave in varying amounts based on length of service.

Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure, of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and useful lives and impairment of tangible and intangible assets. Accordingly, actual results could differ from those estimates.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

During the course of normal operations, it is necessary for the Town to enter into transactions among its various funds. These transactions consist of one or more of the following types:

Transactions for services rendered or facilities provided are recorded as revenue in the receiving fund and expenditures or expenses in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them are recorded as operating transfers in and out.

All other outstanding balances between funds are reported as “due to/from other funds.”

Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In governmental fund financial statements, bond premiums, discounts and issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt issuance expenditures.

Fund Balance

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported under the following categories:

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

1. Nonspendable fund balances – 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. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
2. Restricted fund balance – Includes amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed fund balance – Includes amounts that can be used only for specific purposes pursuant to constraints imposed by an ordinance, the Town’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action (an ordinance) it employed to previously commit those amounts.
4. Assigned fund balance – Includes amounts intended to be used by the Town for specific purposes, but are neither restricted or committed. Intent should be expressed by the Town Council or the Town Administrator to which the Town Council has delegated authority to assign amounts to be used for specific purposes. The authority form making an assignment is not required to be the Town’s highest level of decision making authority. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts classified as committed.
5. Unassigned fund balance – Includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Contineud)

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the Town's policy to reduce restricted amounts first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Town's policy to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts.

Net Assets

Equity in the government-wide and enterprise fund statements are classified as net assets and displayed in following three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by: 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Recently Issued Accounting Pronouncements

A brief description of new accounting pronouncements that might have a significant impact on the Town's financial statements is presented below.

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 directly incorporates the applicable guidance from FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans primarily through enhanced note disclosures and schedules of required supplementary information. This Statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for the fiscal year ending September 30, 2015. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

State of Florida statutes require that all municipal governments establish budgetary systems and approve balanced annual operating budgets. The Town Council annually adopts an operating budget and appropriates funds for the General Fund and the Enterprise Fund. The procedures for establishing budgetary data are as follows:

- Prior to August 1, the Town Administrator submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Upon completion of the public hearings, and prior to October 1, a final operating budget is legally enacted through passage of a resolution. Estimated beginning fund balances are considered in the budgetary process.
- All budgetary revisions equal to or in excess of \$2,500 or between departments must be approved by the Town Council. The Town Administrator is authorized to make budget transfers within a department in amounts less than \$2,500.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

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

Budgetary Data (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- Appropriations along with encumbrances lapse on September 30.

The adopted budgets are prepared in accordance with generally accepted accounting principles, with the exception that depreciation and amortization are not budgeted in the Enterprise Fund.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector, respectively. All property is reassessed according to its fair market value on January 1 of each year and each assessment roll is submitted to the State Department of Revenue for review to determine if the assessment roll meets all of the appropriate requirements of State law. The assessed value of property within the corporate limits of the Town at January 1, 2011, upon which the 2011-2012 levy was based, was approximately \$184 million. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills.

The tax levy of the Town is established by the Town Council prior to October 1 of each year during the budget process. The Palm Beach County Property Appraiser incorporates the Town's millage into the total tax levy, which includes the County, County School Board and Special District tax requirements. The millage rate assessed by the Town for the year ended September 30, 2012 was 6.2798 (\$6.2798 for each \$1,000 of assessed valuation).

Taxes may be paid less a 4% discount in November or at declining discounts each month through the month of February. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are offered for sale, for all delinquent taxes on real property.

After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County. Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations. At September 30, 2012, unpaid delinquent taxes are not material and have not been recorded by the Town.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit eligible collateral with the Treasurer or another banking institution. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes. As of September 30, 2012, the Town's deposits included \$1,810,059 certificates of deposit with terms to maturity of greater than three months when purchased. These certificates of deposit are reported as investments.

Investments

The Town has adopted an investment policy which authorizes the Town to invest any surplus public funds in the Local Government Surplus Funds Trust Fund, administered by the State Board of Administration, negotiable direct obligations of the United States Government, interest bearing time deposits or savings accounts, provided that any such deposits are secured by collateral as prescribed by law, obligations of the federal farm credit banks, obligations of the Federal National Mortgage Association, and securities of, or other interests in, any open-end or closed-end management type investment company or investment trust.

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

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

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Investment Pool. Pool A is now referred to as Florida PRIME. At September 30, 2012, Florida PRIME was rated AAAM by Standard and Poor's. Florida PRIME is considered a SEC 2a7-like fund, thus, the account balances should be considered its fair value. Fund B is not rated by any national rating agency.

Pool B is now referred to as Fund B and is accounted for as a fluctuating NAV pool. The fair value factor for September 30, 2012 was 0.94896811. The factor should be multiplied by the account balance in order to calculate the fair value of the investment in Fund B.

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

The weighted average life based on expected cash flows (WAL) of Fund B at September 30, 2012 was 4.08 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

As of September 30, 2012, the Town of Lake Clarke Shores had \$11,299 invested in Florida PRIME. The cost basis of Fund B as of September 30, 2012 was \$63,491 and the fair value and adjusted book value was \$60,251. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

As of September 30, 2012, the Town had the following investments. The investment in the State Board of Administration Investment Florida PRIME pool is reported as cash and cash equivalents in the balance sheet. The investment in the Fund B and the certificates of deposit are reported as investments.

	<u>Maturity</u>	<u>Fair Value</u>
State Board of Administration Investment Pool		
Florida PRIME	39 days	\$ 11,299
Fund B	4.08 years	<u>60,251</u>
		<u>\$ 71,550</u>
Certificate of Deposit	28 days	\$ 626,245
Certificate of Deposit	115 days	509,628
Certificate of Deposit	115 days	<u>674,186</u>
		<u>\$1,810,059</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. As of September 30, 2012, the SBA Florida PRIME was rated AAAM by Standard and Poor's Rating Service. Fund B is not rated by any national rating agency.

Interest Rate Risk

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

NOTE 4 – RESTRICTED ASSETS

Certain proceeds from the Enterprise Fund Series 2004 note are classified as restricted assets because their use is limited by applicable loan covenants. Certain resources set aside for the repayment of Enterprise Fund Series 2005 promissory note are classified as restricted assets on the balance sheet because their use is limited by applicable loan covenants. Other restricted assets include amounts collected as customer deposits. Restricted assets for the business-type activities at September 30, 2012, consist of:

Debt Service – used to identify resources set aside for the purpose of paying principal and interest on long-term debt.	\$ 591,708
Renewal and Replacement Account - used to identify resources set aside for the purpose of paying the cost of extensions or improvements to the water supply system and wastewater collection system.	500,000
Customer Deposits - used to segregate deposits received from customers to insure against non-payment of billings.	<u>222,280</u>
	<u>\$1,313,988</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2012, are as follows:

	<u>General Fund</u>	<u>Enterprise Fund</u>
Accounts receivable - billed	\$ 58,602	\$ 86,332
Accounts receivable - unbilled		186,950
Total receivables	58,602	273,282
Less allowance for uncollectible accounts		(34,000)
Net receivables	<u>\$ 58,602</u>	<u>\$ 239,282</u>

NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in the entity-wide financial statements during the fiscal year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 517,753	\$ -	\$ -	\$ 517,753
Total capital assets not being depreciated	<u>517,753</u>	<u>-</u>	<u>-</u>	<u>517,753</u>
Capital assets being depreciated				
Buildings	3,205,037	-	-	3,205,037
Improvements-other than buildings	1,835,284	34,585	-	1,869,869
Equipment	950,587	42,905	-	993,492
Infrastructure	<u>6,488,657</u>	<u>-</u>	<u>-</u>	<u>6,488,657</u>
Total capital assets being depreciated	<u>12,479,565</u>	<u>77,490</u>	<u>-</u>	<u>12,557,055</u>
Total at historical cost	<u>12,997,318</u>	<u>77,490</u>	<u>-</u>	<u>13,074,808</u>
Less accumulated depreciation for				
Buildings	263,185	64,101	-	327,286
Improvements-other than buildings	313,713	55,982	-	369,695
Equipment	705,829	76,462	-	782,291
Infrastructure	<u>4,542,057</u>	<u>162,216</u>	<u>-</u>	<u>4,704,273</u>
Total accumulated depreciation	<u>5,824,784</u>	<u>358,761</u>	<u>-</u>	<u>6,183,545</u>
Governmental activities- Capital assets, net	<u>\$ 7,172,534</u>	<u>\$ (281,271)</u>	<u>\$ -</u>	<u>\$ 6,891,263</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 6 – CAPITAL ASSETS (Continued)

Business-type activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 88,760	\$ -	\$ -	\$ 88,760
Intangible assets – water rights	1,870,424	-	-	1,870,424
Construction in progress	<u>-</u>	<u>37,956</u>	<u>-</u>	<u>37,956</u>
Total capital assets not being depreciated/amortized	<u>1,959,184</u>	<u>37,956</u>	<u>-</u>	<u>1,997,140</u>
Capital assets being depreciated/amortized				
Improvements-				
Other than buildings	5,883,023	24,869	(10,000)	5,897,892
Equipment	466,182	6,380	-	472,562
Intangible asset - goodwill	<u>163,500</u>	<u>-</u>	<u>-</u>	<u>163,500</u>
Total capital assets being depreciated/amortized	<u>6,512,705</u>	<u>31,249</u>	<u>(10,000)</u>	<u>6,533,954</u>
Total at historical cost	<u>8,471,889</u>	<u>69,205</u>	<u>(10,000)</u>	<u>8,531,094</u>
Less accumulated depreciation/amortization for				
Improvements-				
Other than buildings	1,728,475	182,742	-	1,911,217
Equipment	409,403	14,007	-	423,410
Intangible asset - goodwill	<u>93,332</u>	<u>4,088</u>	<u>-</u>	<u>97,420</u>
Total accumulated depreciation/amortization	<u>2,231,210</u>	<u>200,837</u>	<u>-</u>	<u>2,432,047</u>
Business-type activities-				
Capital asset, net	<u>\$ 6,240,679</u>	<u>\$(131,632)</u>	<u>\$ (10,000)</u>	<u>\$ 6,099,047</u>

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

Governmental activities	
General government	\$ 52,809
Public safety	88,779
Highways and streets	184,113
Culture and recreation	<u>33,060</u>
Total depreciation expense for governmental activities	<u>\$ 358,761</u>
Business-type activities	
Municipal water and sewer	<u>\$ 200,837</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 7 – INTANGIBLE ASSETS

Intangible assets consist of goodwill arising from the purchase of assets from Florida Water Service, Inc. and water distribution rights resulting from agreements with the City of Lake Worth and the Village of Palm Springs.

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets of the acquired utility system and is being amortized on a straight line basis over the period of the expected benefit of 40 years.

Water distribution rights represent the cost to construct the various improvements required as part of the agreements with the City of Lake Worth and the Village of Palm Springs. The rights have indefinite useful lives and are not being amortized.

Goodwill	\$ 163,500
Water and sewer distribution rights:	
City of Lake Worth	1,726,971
Village of Palm Springs	<u>143,453</u>
Total intangible assets	2,033,924
Accumulated amortization - goodwill	<u>(97,420)</u>
Total intangible assets, net	<u><u>\$ 1,936,504</u></u>

NOTE 8 – LONG-TERM LIABILITIES

Governmental Activities

On December 18, 2007, the town issued its Promissory Note, Series 2007 in the principal amount of \$850,000 to provide funds for a portion of the design, engineering, and construction of the Town's municipal complex. Principal and interest payments on the Note are due in annual installments commencing on December 1, 2008 and on each December 1 thereafter until final maturity on December 1, 2018. The Note bears interest at the rate of 3.94%. Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 73,667	\$ 22,883	\$ 96,550
2014	76,570	19,980	96,550
2015	79,586	16,964	96,550
2016	82,722	13,828	96,550
2017	85,981	10,569	96,550
2018-2019	<u>184,171</u>	<u>10,841</u>	<u>195,012</u>
Total	<u><u>\$582,697</u></u>	<u><u>\$ 95,065</u></u>	<u><u>\$677,762</u></u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Business-type Activities

On November 17, 2004, the Town issued its Promissory Note, Series 2004 in the principal amount of \$1,943,336 to provide funds for the construction of a potable water distribution system for Hypoluxo Village. Interest payments on the Note are due in semiannual installments commencing February 1, 2005 and on each February 1, and August 1, thereafter through August 1, 2016. The Note bears interest at the rate of 3.68%. Principal payments on the Note are due in annual installments from August 1, 2007 through August 1, 2016. Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 204,058	\$ 31,736	\$ 235,794
2014	211,567	24,227	235,794
2015	219,353	16,441	235,794
2016	<u>227,425</u>	<u>8,370</u>	<u>235,795</u>
Total	<u>\$ 862,403</u>	<u>\$ 80,774</u>	<u>\$ 943,177</u>

On April 20, 2005, the Town issued its Promissory Note, Series 2005 in the principal amount of \$3,020,778 to refinance the outstanding Utility System Revenue Refunding and Improvement Bonds, Series 1994. Principal payments on the Note are due in annual installments from October 1, 2006 through October 1, 2018. Interest payments on the Note are due in semiannual installments commencing October 1, 2005 and on each April 1, and October 1, thereafter until final maturity on October 1, 2018. The Note bears interest at the rate of 3.837%. Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 230,155	\$ 65,149	\$ 295,304
2014	241,049	56,109	297,158
2015	246,498	46,756	293,254
2016	256,456	37,107	293,563
2017	270,926	26,989	297,915
2018-2019	<u>567,919</u>	<u>21,951</u>	<u>589,870</u>
Total	<u>\$1,813,003</u>	<u>\$ 254,061</u>	<u>\$2,067,064</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 8 – LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities

During the year ended September 30, 2012, the following changes occurred in long-term liabilities:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012	Due Within One Year
Governmental activities					
Promissory Note, Series 2007	\$ 653,113	\$	\$ (70,416)	\$ 582,697	\$ 73,667
Other postemployment benefits	10,910	5,669		16,579	
Compensated absences	55,171	20,489		75,660	75,660
Total governmental activities	<u>\$ 719,194</u>	<u>\$ 26,158</u>	<u>\$ (70,416)</u>	<u>\$ 674,936</u>	<u>\$ 149,327</u>
Business-type activities					
Promissory Note, Series 2004	\$1,059,218	\$	\$ (196,815)	\$ 862,403	\$ 204,058
Promissory Note, Series 2005	2,031,837		(218,834)	1,813,003	230,155
Less deferred loss on refunding	(78,999)		19,022	(59,977)	
Total bonds payable	3,012,056		(396,627)	2,615,429	434,213
Other postemployment benefits	3,642	1,917		5,559	
Compensated absences	16,761		(3,250)	13,511	13,511
Total business-type activities	<u>\$3,032,459</u>	<u>\$ 1,917</u>	<u>\$ (399,877)</u>	<u>\$ 2,634,499</u>	<u>\$ 447,724</u>

The compensated absences of the governmental activities are liquidated by the General Fund.

Interest Expense

The total interest costs incurred and paid on all Town debt for the year ended September 30, 2012, were \$150,286 and \$138,877, respectively. No interest was capitalized in the Enterprise Fund during the year.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 9 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town has not significantly reduced insurance coverage from the prior year, and there were no settled claims which exceeded insurance coverage during the past three fiscal years.

Florida Statutes limit the Town's maximum loss for most liability claims to \$200,000 per person and \$300,000 per occurrence under the Doctrine of Sovereign Immunity. However, under certain circumstances, a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in Florida Statutes do not apply to claims filed in Federal courts.

Effective September 30, 2008, the Town withdrew from the Southeast Risk Management Association (SERMA), a quasi-governmental agency created by an interlocal agreement, as authorized by Florida Statute 163. SERMA administered the property and casualty coverage for the Town. In accordance with the interlocal agreement, if a member withdraws, the member continues to be fully responsible and obligated for their portion of covered claims and expenses for covered claims that were incurred during the term of their membership. A withdrawn member may be entitled to a return of surplus, as if it were still a member of SERMA.

NOTE 10 – COMMITMENTS

Waste Collection Services

On July 22, 2008, the Town extended the agreement with Waste Management of Florida, Inc. for waste collection, through September 30, 2013. The rates to be paid by the Town depend on the number of units served and are adjusted annually based on changes in the consumer price index. For the year ended September 30, 2012, the Town was charged \$260,600 for waste collection.

Village of Palm Springs Interlocal Agreement to Purchase Bulk Water

On November 10, 1988, the Town entered into an open-ended interlocal agreement with the Village of Palm Springs, Florida (the Village) for the purchase and sale of bulk potable water. Rates for water service are based on the Village's large user rates. The Town is billed monthly on an average 400,000 gallons per day contracted minimum. For the year ended September 30, 2012, the Town was charged \$196,694 for purchased water.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 10 – COMMITMENTS (Continued)

City of Lake Worth Interlocal Agreement to Provide Sewer Treatment Services

On November 23, 1988, the Town entered into an open-ended agreement with the City of Lake Worth, Florida (the City) to provide sewer treatment services to the Town's sewer system. Charges for treatment of sewage disposal are billed to the Town monthly and are based on the City's rates for actual and capital costs per 1,000 gallons of sewage disposed. The Town was charged \$630,500 for sewage disposal services for the year ended September 30, 2012.

City of Lake Worth Interlocal Agreement to Purchase Bulk Water

On October 13, 1993, the Town entered into an interlocal agreement with the City of Lake Worth, Florida (the City) for the purchase and sale of bulk potable water for the Seminole Manor Service Area for a period of ten years, renewable for successive periods of five years at the option of the City. The City agreed to provide bulk water service at a rate of 65 cents per thousand gallons for a minimum of three years. In October 2002, the Town paid for an additional 82 equivalent residential units to serve the Hypoluxo Village Service Area. The agreement expired on October 13, 2008.

On February 15, 2011, the Town entered into a new interlocal agreement with the City of Lake Worth for the purchase and sale of bulk potable water to serve residents living within the Hypoluxo Village Service Area for a period of ten years, renewable for successive periods of five years each, upon the same terms and conditions, by written agreement of both parties to the agreement prior to expiration of the initial term or any renewal thereof. Bulk potable water purchases and sales for the Seminole Manor Service Area were discontinued under the agreement. The City agreed to provide water service at a bulk service rate of \$0.303 cents per hundred gallons. Future rate changes will be allowed only at the time of the City's water system rate increases. The new rate to be charged will be equal to the current rate plus the monetary change in the rate of the lowest tier residential water rate placed into effect at the time of the new rate change. The Town is billed on a monthly basis for actual metered water service delivered by the City, based upon a reserve capacity of 200,000 gallons per day. A 25% surcharge shall be added for all usage exceeding the reserve capacity in any month. For the year ended September 30, 2012, the Town was charged \$106,625 for water purchased from the City.

Palm Beach County Interlocal Agreement to Purchase Bulk Water

On February 2, 2010, the Town entered into an interlocal agreement with Palm Beach County, Florida (the County) for the purchase and sale of bulk potable water for a period of thirty years, renewable for successive periods of five years each, upon the same terms and conditions, by written agreement of both parties prior to expiration of the initial term or any renewal thereof. The Town pays the County a full cost recovery commodity fee based upon a reserve capacity of 400,000 gallons per day. The initial fee was \$2.43 per thousand gallons. Beginning October 1,

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 10 – COMMITMENTS (Continued)

Palm Beach County Interlocal Agreement to Purchase Bulk Water (Continued)

2010, and for each year thereafter, the fee shall be adjusted upward or downward by an amount equal to three-fourths (3/4) of the change in the prior year's (measured July to July) Consumer Price Index all Urban Consumers, Water and Sewerage Maintenance, published by the U.S. Department of Labor, Bureau of Labor Statistics (CPI) or some other mutually agreed-upon index if the CPI is discontinued. The Town is obligated to take or pay the County a minimum amount of three-fourths of the capacity reserved under the agreement, calculated on an annual basis, regardless of actual usage. For the year ended September 30, 2012, the Town incurred charges of \$358,876 under the agreement.

Construction Projects

As of September 30, 2012, the Town had entered into the following commitment for water main improvements.

<u>Project</u>	<u>Authorized Amount</u>	<u>Amount Completed 09/30/12</u>	<u>Balance to Complete</u>
Nowata Road Water Main Replacement	\$ 109,235	\$ 37,956	\$ 71,279

NOTE 11 – DEFINED CONTRIBUTION PENSION PLAN

The Town of Lake Clarke Shores, Florida's Money Purchase Plan is a defined contribution pension plan established by the Town and administered by Nationwide Life Insurance Company to provide benefits at retirement to the employees of the Town. All full-time employees are eligible to participate on attainment of age 21 and completion of six months of service, with hours of service being determined on the basis of actual hours for which an employee is paid or entitled to payment. For the year ended September 30, 2012, the Town contributed an amount equal to 8% of covered payroll. Participants are required to contribute a minimum of 2% under the plan. A participant is fully vested after six years of service. Town contributions for, and interest forfeited by, employees who leave before six years of service are used to reduce the Town's current period contribution requirement.

The Town's total payroll for the fiscal year ended September 30, 2012, was \$1,271,180. The Town's contribution requirement, representing 8% of the covered payroll of \$1,057,525, amounted to \$84,602.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 12 – INTRAGOVERNMENTAL ADMINISTRATIVE FEE

During the year ended September 30, 2012, the Enterprise Fund remitted \$35,000 to the General Fund for use of office space. This amount is reflected as intragovernmental revenue in the General Fund and as intragovernmental expense in the Enterprise Fund.

NOTE 13 – INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2012, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 190,000	\$
Enterprise Fund	<u> </u>	<u>190,000</u>
Totals	<u>\$ 190,000</u>	<u>\$ 190,000</u>

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS

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

Plan Description

The Town provides a single employer defined benefit health care plan to all of its employees. The plan allows its employees and their beneficiaries to continue to obtain health and dental benefits upon retirement. The normal retirement age for Town employees is age 60. The benefits of the plan are in accordance with Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Required contribution rate - employer	Pay-as-you-go
Required contribution rate - plan members	N/A
Annual required contribution	\$ 9,724
Interest on net OPEB obligation	655
Adjustment to annual required contribution	<u>(823)</u>
Annual OPEB cost (expense)	9,556
Estimated net contributions made	<u>(1,970)</u>
Increase in net OPEB obligation	7,586
Net OPEB obligation October 1, 2011	<u>14,552</u>
Net OPEB obligation September 30, 2012	<u>\$ 22,138</u>

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/10	\$ 9,856	33.2%	\$ 6,583
09/30/11	\$10,344	23.0%	\$14,552
09/30/12	\$ 9,556	20.6%	\$22,138

Funded Status

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

Actuarial valuation date	October 1, 2009
Actuarial accrued liability	\$ 42,780
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 42,780
Funded ratio	0.0%
Covered payroll	\$1,173,174
UAAL as a percentage of covered payroll	3.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are comparable with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. In future years, required trend data will be presented.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2012

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

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

Actuarial valuation date	October 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Amortization period	30 year closed period
Asset valuation method	Unfunded
Actuarial assumptions:	
Discount rate	4.5%
Healthcare cost trend	7% for 2010 decreasing to 5.0% in 2013
Mortality Rate	RP-2000 Combined Healthy Mortality Table

Twenty percent of active employees are assumed to maintain benefit coverage after retirement. Fifty percent of active employees who elect benefit coverage are assumed to cover their spouse. Assumed termination rates vary by age as shown below.

<u>Age</u>	<u>Percent Remaining Employed Until Assumed Retirement Age</u>
20	29.60%
30	59.30%
40	84.10%
50	100.00%

NOTE 15 – SPECIAL ASSESSMENTS

In 2006, non-ad valorem special assessments were levied on properties specially benefited by a capital improvement project for the Hypoluxo Village potable water distribution facility. Property owners were given the option to prepay the entire amount of the assessment. Assessments that were not prepaid are payable in ten equal annual installments of principal and interest. The assessments bear interest at the rate of 6.5% per annum.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Required Supplementary Information
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended September 30, 2012

	General Fund			Variance With Final Budget Positive (Negative)
	Original Adopted Budget	Final Revised Budget	Actual	
Revenues:				
Taxes	\$ 1,305,670	\$ 1,297,659	\$ 1,301,990	\$ 4,331
Licenses and permits	320,724	278,224	290,160	11,936
Intergovernmental	429,989	426,989	436,294	9,305
Fines and forfeitures	32,600	44,600	46,342	1,742
Interest income	27,000	12,000	12,774	774
Net increase in fair value of investments			4,499	4,499
Intragovernmental	35,000	35,000	35,000	
Charges for services	22,500	47,500	49,195	1,695
Miscellaneous	62,500	41,500	55,787	14,287
Total revenues	<u>2,235,983</u>	<u>2,183,472</u>	<u>2,232,041</u>	<u>48,569</u>
Expenditures:				
Current:				
General government	637,029	679,829	619,289	60,540
Public safety	1,295,854	1,434,854	1,365,091	69,763
Highways and streets	72,000	90,000	69,969	20,031
Physical environment	353,000	352,000	344,552	7,448
Culture and recreation	68,100	86,100	72,507	13,593
Total expenditures	<u>2,425,983</u>	<u>2,642,783</u>	<u>2,471,408</u>	<u>171,375</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(190,000)</u>	<u>(459,311)</u>	<u>(239,367)</u>	<u>219,944</u>
Other financing sources:				
Operating transfer in	190,000	190,000	190,000	
Total other financing sources	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>\$</u>	<u>\$ (269,311)</u>	<u>(49,367)</u>	<u>\$ 219,944</u>
Fund balance, beginning of year			<u>1,016,195</u>	
Fund balance, end of year			<u>\$ 966,828</u>	

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

Note 1 - Budgets and Budgetary Accounting

As required by GASB Statement No. 34, a budgetary comparison schedule is presented for the General Fund. The procedures for establishing budgetary data reflected in the budgetary comparison schedule are described in Note 2 to the financial statements on page 28. Budgets are adopted on a basis consistent with generally accepted accounting principles. Formal budgetary integration is employed within the accounting system as a management control device. Appropriations are legally controlled at the departmental level and expenditures may not legally exceed budgeted appropriations at that level. For the year ended September 30, 2012, there were no departments that had an excess of expenditures over appropriations.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Required Supplemental Information
Schedule of Funding Progress
Other Postemployment Benefits
For the Year Year Ended September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age(1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
October 1, 2009	\$	\$ 42,780	\$ 42,780	0.0%	\$ 1,173,174	3.6%

The schedule of funding progress presented above will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Town implemented GASB Statement No. 45 during the fiscal year ended September 30, 2010, and elected to apply the statement prospectively. Consequently, there are no disclosures for prior years. The Town is required to have an actuarial valuation every three years. The next valuation is scheduled for October 1, 2012. In future years, required trend data will be presented. The Town has not contributed assets to the plan at this time.

TOWN OF LAKE CLARKE SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
General Fund
For the Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures:			
General government:			
Mayor and council:			
Personal services:			
Executive salaries	\$ 6,050	\$ 6,010	\$ 40
FICA	372	372	
Medicare	87	87	
Operating:			
Travel and per diem	950	328	622
General insurance	400	340	60
Other current charges	500	425	75
Operating supplies	1,500	880	620
Books, dues, and education	2,700	2,400	300
Total mayor and council	<u>12,559</u>	<u>10,842</u>	<u>1,717</u>
Finance:			
Operating:			
Consulting	8,800	8,717	83
Accounting and auditing	13,250	13,150	100
Total finance	<u>22,050</u>	<u>21,867</u>	<u>183</u>
Administration and clerk:			
Personal services:			
Regular salaries	183,095	180,795	2,300
Elections	2,000		2,000
Overtime	2,000		2,000
FICA	11,476	10,568	908
Medicare	2,684	2,472	212
Pension contributions	14,808	11,292	3,516
Employee insurance	37,300	29,679	7,621
Operating:			
Travel and per diem	1,100	277	823
Communications	1,700	1,566	134
Postage and freight	600	367	233
Repairs and maintenance	6,500	6,222	278
Printing and binding	400		400
Other current charges	1,000	771	229
Advertising	2,700	2,308	392
Office supplies	1,000	599	401
Operating supplies	2,800	2,614	186
Books, dues, and education	1,700	1,435	265
Capital outlay:			
Machinery and equipment	2,500		2,500
Debt service			
Principal	70,874	70,416	458
Interest	26,275	26,135	140
Total administration	<u>372,512</u>	<u>347,516</u>	<u>24,996</u>

(continued)

TOWN OF LAKE CLARKE SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
General Fund
For the Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Legal:			
Operating:			
Professional fees	\$ 101,000	\$ 101,693	\$ (693)
Other general government:			
Operating:			
Professional fees	11,891	10,601	1,290
Other contractual services	1,000		1,000
Communications	9,000	6,491	2,509
Postage and freight	3,000	450	2,550
Electric	23,500	21,478	2,022
Water and sewer	7,500	7,264	236
Rentals and leases	3,000	1,199	1,801
General insurance	55,000	47,884	7,116
Repairs and maintenance	34,000	32,969	1,031
Printing and binding	1,000	187	813
Other current charges	7,117	898	6,219
Office supplies	800	636	164
Operating supplies	5,500	5,341	159
Gas and oil	1,400	628	772
Books, dues, and education	3,000	1,345	1,655
Capital outlay:			
Improvements other than building	5,000		5,000
Total other general government	171,708	137,371	34,337
Total general government	679,829	619,289	60,540
Public safety:			
Law enforcement:			
Personal services:			
Regular salaries	637,663	636,883	780
PD special details	36,000	35,850	150
Overtime	30,500	9,657	20,843
State incentive pay	7,139	6,277	862
FICA	43,234	42,287	947
Medicare	10,176	9,988	188
Pension contributions	47,047	45,421	1,626
Employee insurance	120,600	107,916	12,684
Unemployment compensation	4,000	550	3,450

(continued)

TOWN OF LAKE CLARKE SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual (continued)
General Fund
For the Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Operating:			
Dispatch services	\$ 38,900	\$ 38,728	\$ 172
Travel and per diem	2,000	1,837	163
Communications	24,000	23,446	554
Postage and freight	2,300	2,094	206
Rentals and leases	800	124	676
Police vehicle leases	4,800	4,800	
Repairs and maintenance	43,000	42,376	624
Repairs and maintenance - vehicles	26,000	25,858	142
Printing and binding	700	572	128
Other current charges	1,100	971	129
Crime prevention	800	621	179
Office supplies	2,300	2,087	213
Operating supplies	44,000	42,851	1,149
Gas and oil	47,105	46,528	577
Uniforms	14,000	13,044	956
Books, dues, and education	4,200	3,995	205
Capital outlay:			
Machinery and equipment	29,000	23,060	5,940
Total law enforcement	<u>1,221,364</u>	<u>1,167,821</u>	<u>53,543</u>
Protective inspections and code enforcement:			
Personal services:			
Regular salaries	71,966	71,800	166
Overtime	2,000	53	1,947
FICA	4,480	4,380	100
Medicare	1,048	1,024	24
Pension contributions	5,621	4,395	1,226
Employee insurance	18,600	18,061	539
Operating:			
Other contractual services	91,500	82,525	8,975
Travel and per diem	700	579	121
Communications	700		700
Postage and freight	1,500	988	512
Rentals and leases	500		500
Repairs and maintenance	10,500	9,762	738
Other current charges	200	145	55
Office supplies	675	633	42
Operating supplies	3,200	2,925	275
Books, dues, and education	300		300
Total protective inspections and code enforcement	<u>213,490</u>	<u>197,270</u>	<u>16,220</u>
Total public safety	<u>1,434,854</u>	<u>1,365,091</u>	<u>69,763</u>

(continued)

TOWN OF LAKE CLARKE SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual (continued)
General Fund
For the Year Ended September 30, 2012

	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Highways and streets:			
Operating:			
Professional fees	\$ 28,000	\$ 27,877	\$ 123
NPDES agreement	7,500	7,276	224
Electric	25,000	24,451	549
Repairs and maintenance	8,700	8,519	181
Operating supplies	3,000	1,421	1,579
Road materials and supplies	1,000	425	575
Capital outlay:			
Improvements other than building	7,500		7,500
Storm drainage	9,300		9,300
Total highways and streets	90,000	69,969	20,031
Physical environment:			
Operating:			
Lawn services	70,000	65,388	4,612
Garbage collection service	263,300	260,600	2,700
Weed control	18,700	18,564	136
Total physical environment	352,000	344,552	7,448
Culture and recreation:			
Parks and recreation			
Operating:			
Professional fees	8,100	4,136	3,964
Electric	2,500	2,205	295
Water and sewer	800	669	131
Repairs and maintenance	13,200	12,254	946
Operating supplies	3,200	3,071	129
Beautification landscape	19,000	18,284	716
Capital outlay:			
Improvements other than building	11,000	10,775	225
Total parks and recreation	57,800	51,394	6,406
Special events			
Operating:			
Postage and freight	2,000	609	1,391
Printing and binding	2,000	1,702	298
Promotional activities	5,000	1,845	3,155
Other current charges	300		300
Operating supplies	19,000	16,957	2,043
Total special events	28,300	21,113	7,187
Total culture and recreation	86,100	72,507	13,593
Total expenditures	\$ 2,642,783	\$ 2,471,408	\$ 171,375



NOWLEN, HOLT & MINER, P.A.

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

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The Honorable Mayor and Members of the Town Council
Town of Lake Clarke Shores, Florida

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lake Clarke Shores, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town of Lake Clarke Shores, Florida's basic financial statements and have issued our report thereon dated May 31, 2013. We conducted our audit in accordance 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 Town of Lake Clarke Shores, Florida is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Lake Clarke Shores, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lake Clarke Shores, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Lake Clarke Shores, Florida's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Town of Lake Clarke Shores, Florida in the accompanying Management Letter dated May 31, 2013.

This report is intended solely for the information and use of the Town of Lake Clarke Shores, Florida's management, members of the Town Council, others within the entity, federal and state awarding agencies and pass-through entities, 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.

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
May 31, 2013



NOWLEN, HOLT & MINER, P.A.

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

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The Honorable Mayor and Members of the Town Council
Town of Lake Clarke Shores, Florida

We have audited the financial statements of the Town of Lake Clarke Shores, Florida, as of and for the year ended September 30, 2012, and have issued our report thereon dated May 31, 2013.

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. We have issued our 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*. Disclosures in that report, which is dated May 31, 2013, should be considered in conjunction with this Management Letter.

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

PRIOR YEAR COMMENTS

Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

There were no items in the preceding annual financial audit report that required corrective actions.

CURRENT YEAR COMMENTS

Investment of Public Funds

Rules of the Auditor General require our audit to include a review of the Town's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, the results of our procedures did not disclose any instances of noncompliance with Section 218.415, Florida Statutes.

Recommendations to Improve Financial Management

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we had the following recommendations.

Finding 2012-1: Payroll Accounting Software

Observation: During our testing of payroll, we noted that the payroll software incorrectly credits cash for amounts withheld from employee's payroll for pre-tax insurance deductions instead of crediting a liability account. This resulted in an understatement of cash and an overstatement of insurance expenditures.

Recommendation: We recommend that the Town review this problem with their accounting software vendor to determine how to best resolve the issue.

Management Response: The Town accepts the recommendation and will work to have Munis correct the problem. Should Munis not be able to make the appropriate software modifications or should it prove too costly to make the modifications the Town will make monthly manual entries. The actions will be documented and reported in next year's audit.

Finding 2012-2: Reconciliation of Utility Fund Accounts Receivable

Observation: During our testing of Utility Fund accounts receivable, we noted that the Town reconciles the general ledger receivable account to an accounts receivable summary maintained in a spreadsheet. At September 30, 2012, there was an error in the spreadsheet which resulted in a misstatement of receivables.

Recommendation: We recommend that the Town reconcile the general ledger receivable account to the receivable aging reports provided by the Town's billing software.

Management Response: The Town has reviewed the procedures and the electronic spreadsheet and we believe we have resolved the problem. As an additional check and balance, we are asking the Finance Director to perform a spot reconciliation at least once a quarter.

Violations of Provisions of Contracts or Grant Agreements, Fraud, Illegal Acts, or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, 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.

Matters Inconsequential to the Financial Statements

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

Oversight Unit and Component Units

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

Consideration of Financial Emergency Criteria

Rules of the Auditor General require a statement be included as to whether or not the local 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 of Lake Clarke Shores, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Annual Financial Report

Rules of the Auditor General require that we determine whether the annual financial report for the Town of Lake Clarke Shores, Florida for the fiscal year ended September 30, 2012 filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we noted that the two reports were in substantial agreement.

Financial Condition Assessment Procedures

Pursuant to Rules of the Auditor General, we applied financial condition assessment procedures as of the fiscal year end. It is management's responsibility to monitor the Town of Lake Clarke Shores, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provide by management. The results of our procedures did not disclose any matters that are required to be reported.

Excess of Expenditures Over Appropriations

As indicated in Note 1 to the Budgetary Required Supplementary Information for the year ended September 30, 2012, there were no departments that had expenditures in excess of appropriations.

Single Audits

The Town expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2012. The Town was not required to have a federal single audit or a state single audit.

Response to Management Letter

We did not audit management's responses to the Management Letter and express no opinion on them.

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and state awarding agencies, pass-through entities, management of the Town of Lake Clarke Shores, and members of the Town Council, and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimes, P.A.

West Palm Beach, Florida
May 31, 2013