

**TOWN OF  
INDIAN RIVER  
SHORES, FLORIDA**

**Basic  
Financial Statements and  
Supplemental Information**

**Year ended  
September 30, 2010**

BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP

# TOWN OF INDIAN RIVER SHORES, FLORIDA

## Official Directory

September 30, 2010

### *Town Council*

E. William Kenyon  
Mayor

William H. Ahrens  
Vice Mayor

Frances F. Atchison  
Councilmember

Michael B. Oschner  
Councilmember

Gerard A. Weick  
Councilmember

### *Administrative*

Richard Jefferson  
Town Manager

Judith L. Lewis, CPA  
Town Treasurer

Chester E. Clem  
Town Attorney

Laura Aldrich  
Town Clerk

Tetra Tech HAI  
Town Engineer

William Schauman  
Public Safety Director

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Town Council  
Town of Indian River Shores, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida (the "Town"), as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Indian River 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida, as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note G to the financial statements, the Town adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2011, on our consideration of the Town of Indian River Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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 Indian River Shores, Florida's, basic financial statements. The combining and individual nonmajor fund financial statements, the Combining Statement of Plan Net Assets, and the Schedule of Property Tax Valuations, Levies and Collections, are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements the Combining Statement of Plan Net Assets, and the Schedule of Property Tax Valuations, Levies and Collections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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.

January 4, 2011  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

**TOWN OF INDIAN RIVER SHORES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

This management's discussion and analysis is designed as an objective overview and analysis of the Town of Indian River Shores' (the "Town") financial health and activities. The analysis provides summary financial information for the Town and should be read in conjunction with the accompanying transmittal letter, financial statements and notes to the financial statements. Both current and prior year information is provided where appropriate to facilitate comparative analysis under the GASB 34 reporting model.

**FINANCIAL HIGHLIGHTS**

- Total net assets at September 30, 2010 were \$8,004,729. Of this amount, \$2,761,197 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- Combined ending fund balance of the governmental funds totaled \$4,370,222.
- The total revenues from all Governmental funds sources were \$4,898,725, a decrease of less than 1% from the prior year.
- The total gross expenses of all Town programs were \$5,267,080, a 3% decrease from the prior fiscal year.
- By year end, the Town's total governmental funds revenues exceeded total expenditures and other financing sources and uses by \$25,370.
- Total expenditures and other financing sources and uses in the General Fund exceeded total revenues by \$37,987.
- General Fund actual revenues were \$5,378 less than budgeted while General Fund budgeted appropriations exceeded actual expenditures by \$278,300.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The Town of Indian River Shores' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**1) Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Indian River Shores' finances in a manner similar to a private-sector business.

- The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

- The statement of activities presents information showing how the Town'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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).
- Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes, certain fees and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs (business-type activities, such as utilities or a golf course). All of the Town's activities are included as governmental activities for fiscal year ended September 30, 2010.

**2) Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: 1) governmental funds and 2) fiduciary funds.

*Governmental funds* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Indian River Shores maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road and Bridge Fund, both of which are considered to be major funds for the current fiscal year. Data from the other governmental funds, i.e. the Bike Path and Pedestrian Way Fund, Radon Gas Fund, Planning, Zoning and Building Fund and Postal Center Fund are combined into a single aggregated presentation, in compliance with the GASB 34 reporting model.

The Town of Indian River Shores adopted an annual appropriated budget for the General Fund and the Road and Bridge Fund for the fiscal year ended September 2010. A budgetary comparison statement has been provided for these funds to demonstrate the level of compliance with these budgets.



*Fiduciary funds* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town of Indian River Shores' own programs.

Town Council members sit as the appointed pension board trustees, or fiduciaries, for the Town's defined benefit plan only. The Town's defined contribution plan has no requirement for a pension board. The Town's Plan Administrator for both the defined benefit and defined contribution plans is the Florida Municipal Pension Trust. The plan administrator is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Individual fund data for each of the fiduciary funds is combined in the accompanying fiduciary fund financial statements.

**3) Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Reference to the appropriate corresponding note is made next to each line item on the face of the financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Comparative data for fiscal years ending September 30, 2010 and 2009 are shown below.

<b>TOWN OF INDIAN RIVER SHORES' NET ASSETS</b>		
<b>September 30,</b>		
	Governmental Activities	
	2010	2009
Current and other assets	\$ 4,495,524	\$ 4,476,837
Capital assets	4,261,023	4,469,970
Total assets	8,756,547	8,946,807
Long-term liabilities outstanding	626,516	488,298
Other liabilities	125,302	121,671
Total liabilities	751,818	609,969
Net assets:		
Invested in capital assets	4,261,023	4,469,970
Restricted	982,509	944,568
Unrestricted	2,761,197	2,922,300
Total net assets	\$ 8,004,729	\$ 8,336,838

The Statement of Net Assets and its concept are useful indicators of a governmental entity's financial health and stability over time. The Town of Indian River Shores experienced a net decrease in net assets for fiscal year 2010 of \$332,109 and a modest net decrease in net assets for fiscal year 2009 of \$198,657.

The Town, for both fiscal years, reports positive balances in all categories of net assets in its governmental activities. The Town's unrestricted net assets at September 30, 2010 decreased by \$161,103 (6%) under fiscal year 2009. Restricted net assets increased modestly during fiscal year 2010 by \$37,941 (4%) over 2009 fiscal year end balances. The Town's net capital assets decreased by \$208,947 (5%) under fiscal year 2009. Invested in capital assets consists of 53%, as a percentage of net assets for fiscal year ending September 30, 2010, and 54%, for fiscal year ending 2009.

Capital assets are used to provide services to citizens and they are not available for future spending. Although the investments in capital assets are reported net of any related debt, it should be noted that the resources needed to repay any related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities, should they ever exist.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Road construction and maintenance restricted net assets are generated by the Road and Bridge special revenue fund. This restricted fund balance increased by 24% from fiscal year 2009 to fiscal year 2010, reversing the prior year aberrant decrease. The restricted net assets for the Planning, Zoning and Building Fund decreased in fiscal year ended September 30, 2010, by 18%, continuing the trend of slowed growth over the last four years. This trend has greatly impacted funds available to operate in these leaner times, though it is expected to revive within perhaps another year or two.

The unrestricted net assets represent Town resources that may be used to meet the Town's ongoing obligations to citizens and creditors. This net asset category decreased by 6%, from fiscal year 2009 to 2010. The primary reason for the net asset category decrease was the planned use of unrestricted net assets during fiscal year 2010 to help replace the expected decrease in revenues from intergovernmental sources and avoid a property tax increase for fiscal year 2010.

## ANALYSIS OF TOWN'S OPERATIONS

The following table provides a summary of the Town's operations for the year ended September 30, 2010 and 2009.

### TOWN OF INDIAN RIVER SHORES' CHANGES IN NET ASSETS

All Governmental Activities

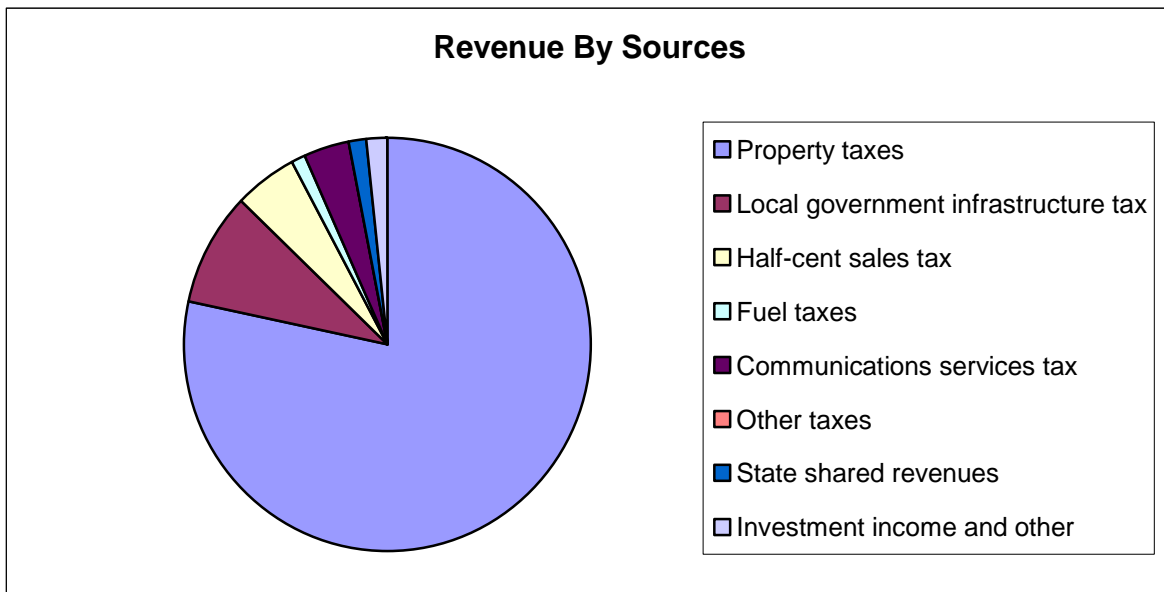
	2010	2009
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 530,523	\$ 596,561
Operating grants and contributions	40,484	10,777
General revenues:		
Property taxes	3,386,431	3,467,708
Other taxes	803,500	801,964
State shared	64,074	64,131
Interest	14,292	27,265
Miscellaneous revenue	20,276	14,765
Investment loss	39,145	(76,549)
Loss on disposal of capital assets	(4,180)	(6,558)
Total revenues	<u>4,894,545</u>	<u>4,900,064</u>
<u>Expenses:</u>		
General government	1,478,429	1,477,950
Public safety	3,631,700	3,441,297
Public works	117,132	141,322
Engineering and planning services	1,760	2,035
Cemetery	11,192	9,869
Culture and recreation	26,867	26,248
Total expenses	<u>5,267,080</u>	<u>5,098,721</u>
Change in net assets	(372,535)	(198,657)
Net assets beginning of fiscal year	8,336,838	8,535,495
Prior period adjustment	40,426	-
Net assets beginning of fiscal year (restated)	<u>8,377,264</u>	<u>8,535,495</u>
Net assets end of fiscal year	<u>\$ 8,004,729</u>	<u>\$ 8,336,838</u>

The following table depicts the comparative program revenues collected for the current fiscal year, compared to the related program expenses.

**TOWN OF INDIAN RIVER SHORES**  
 Expenses and Program Revenues-Governmental Activities  
 Fiscal year ended September 30, 2010

	Revenues	Expenses	Net (Expenses) Revenues
Postal center	\$ 261,090	\$ 344,482	\$ (83,392)
Building department	219,405	303,351	(83,946)
Public safety	65,487	3,631,700	(3,566,213)
Cemetery	11,250	11,192	58
Community center	13,775	26,867	(13,092)
	<u>\$ 571,007</u>	<u>\$ 4,317,592</u>	<u>\$ (3,746,585)</u>

Revenues for the Town, other than charges for services shown above, are generated from a number of different sources and are, for the most part, dependent on different financial factors. This relative mix of different revenue sources for fiscal year ended 2010 is illustrated in the chart below.



## **FINANCIAL ANALYSIS OF THE TOWN OF INDIAN RIVER SHORE'S FUNDS**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town of Indian River Shores' governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of September 30, 2010, the Town of Indian River Shores governmental funds reported combined fund balances of \$4,370,222.

The General Fund is the chief operating fund of the Town. At September 30, 2010 the total fund balance in the General Fund was \$3,732,185 (85 percent of the total \$4,370,222), of which 89 percent was unreserved, which is a measurement of the General Fund's liquidity. The General Fund's revenues for the fiscal year exceeded expenditures by \$38,913. The main reason for the surplus was the reduction in personnel costs related to two full time employees' resignations, without the hiring of replacement personnel.

Special revenue funds are used to account for specific revenues and expenditures. The total fund balance of the Road and Bridge Fund at year ending September 30, 2010 was \$617,673 (14 percent of the total \$4,370,222). The remaining four special revenue funds are less significant at the current fiscal year end, with combined positive fund balances of \$20,364 (less than 1 percent of the total \$4,370,222). The Planning, Zoning and Building Fund is still self-sustaining, utilizing its fund balance to supplement its fiscal year 2010 deficiency in revenue. The Postal Center fund is still relying on general fund transfers to continue its operations. The Radon Gas Fund is a self balancing Special Revenue Fund, used for accounting for collection of State radon surcharges, and remitting those amounts, less an administrative collection fee retained by the Town.

## **BUDGETARY HIGHLIGHTS**

A budget to actual statement is provided in the supplementary reports for the General Fund and the Road and Bridge Fund. A budget column for both the original budget adopted for fiscal year ended 2010, as well as the final budget, is presented.

Both original and final budgets are estimates based on information available to management prior to and just after year end. The major general fund budget changes are summarized as follows:

- \$52,000 increased expense allocated to Public Safety for Per Diem wages, Vehicle repairs and maintenance and increased Fuel costs
- \$57,000 increased expense allocated the Town Manager's Department for vacation payment and related pension cost upon termination of employment
- \$35,800 Fixed Asset purchases budgeted as a result of grant money awards
- \$19,000 increased expense allocated to Legal fees

Another notable transaction was the Intrafund transfer from the General fund of \$77,000 to the Postal Center fund in support of operations from undesignated surplus funds.

## CAPITAL ASSET ADMINISTRATION

The Town of Indian River Shores' investment in capital assets includes land, buildings and improvements, including infrastructure, furniture, fixtures and equipment. The Town's capital assets as of September 30, 2010 reflect an investment of \$4,261,023 net of accumulated depreciation. A comparative summary of net capital assets by category follows:

### Capital Assets at Year End (net of depreciation)

	<u>2010</u>	<u>2009</u>	<u>Difference</u>
Land	\$ 1,428,482	\$ 1,428,482	\$ -
Buildings	2,025,386	2,110,832	(85,446)
Improvements other than buildings	151,399	154,722	(3,323)
Furniture, fixtures and equipment	<u>655,756</u>	<u>775,934</u>	<u>(120,178)</u>
Total capital assets	<u>\$ 4,261,023</u>	<u>\$ 4,469,970</u>	<u>\$ (208,947)</u>

Major capital asset events during the current fiscal year include the following:

- Public Safety purchase of grant funded eight portable Scanner: \$17,255
- Computers and backup equipment for Public Safety Department: \$16,535
- Fire truck pump motor replacement: \$8,382
- Public Safety building partial roof replacement: \$5,800

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates and fees to be charged for certain activities. Initial expectations for fiscal year 2010 were for a weakening of the Town's revenue streams from state shared resources. This proved to be the case, due to the continued economic conditions causing sales tax declines. While many municipalities must deal with other economic factors, such as unemployment, skyrocketing pension costs and declining property tax bases, the Town has been able to avoid these issues as a whole.

Our focus at the Town as an organization is the achievement of our mission objectives, to make the Town of Indian River Shores the most livable and best managed town by providing courteous and quality services through teamwork, innovation and a total Commitment to Excellence. The following key economic indicators reflect the Town's current operating environment:

- Stable property values: County wide values declined approximately 12%, while the Town's declined less than 2%
- Low employee turnover: average full-time employee tenure is over 11 years
- Recovering sales tax revenue sharing from State, projected to increase 5% in fiscal year 2011

While the above factors certainly assist the Town in its struggle to maintain the level of service we offer, we still found it necessary to reduce budgeted expenses for fiscal year 2011. The final budget adopted for the General Fund for fiscal year 2011 is 6% less than actual results for fiscal year 2010. Town Council also adopted the 2010 property tax rollback millage rate of 1.4105 for the new fiscal year, up from the prior three year use of 1.3923. Areas of cost savings achieved recently include employee health insurance premiums, changes in Defined Benefit Pension plan actuarial assumptions, consolidation of job positions upon termination of employees' employment, reduction in planned fixed asset purchases and discontinued funding of Emergency Disaster designated funds. With these cost savings in place for fiscal year 2011, plus the increase in Ad Valorem taxes, it is expected the Town will utilize approximately \$313,000 of unreserved funds from the General Fund to balance the budget in fiscal year 2011.

The Town is still investigating a change in the electric and water service supplier for its residents. Fact-finding continues as Council Members perform their due diligence in this matter. The City of Vero Beach is the current provider, while options exist for a change to either the Indian River County or a private third party.

As always, Town Council and staff continue to stay committed to a solid financial standing. The emergency disaster fund balance remains at nearly \$2.5 million, though we are expected to reduce that amount in the new fiscal year, as it is deemed more than adequate. Though the General Fund undesignated fund balance decreased by the end of fiscal year 2010, the Governmental funds unreserved fund balance remains at 57% of the final budget for fiscal year 2011, at \$2,312,062. This is indeed a solid financial footing, design to enhance the Town's ability to sustain both operations and a high level of service.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Indian River Shores for those interested in the Town's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to the Town's Finance Department, Town of Indian River Shores, 6001 North A-1-A, Indian River Shores, Florida, 32963-1014, or [irstt@irshores.com](mailto:irstt@irshores.com).

**Town of Indian River Shores, Florida**

**STATEMENT OF NET ASSETS**

**September 30, 2010**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents (Notes A-4, B)	\$ 4,258,489
Restricted investments (Note B)	95,473
Accounts receivable	6,464
Due from other governments	66,801
Inventory	12,545
Prepaid expenses	55,287
Other current assets	465
Total current assets	4,495,524
Capital assets, not being depreciated (Notes A-7, C):	
Land	1,428,482
Capital assets, net of accumulated depreciation (Notes A-7, C):	
Buildings	2,025,386
Improvements other than buildings	151,399
Furniture, fixtures and equipment	655,756
Total capital assets	4,261,023
Total assets	8,756,547
<b>LIABILITIES</b>	
Accounts payable	75,415
Accrued expenses	41,721
Due to other governments	37
Other liabilities	369
Deferred revenue	7,760
Noncurrent liabilities:	
Due within one year	
Compensated absences (Notes A-4, E)	50,151
Due in more than one year	
Compensated absences (Notes A-4, E)	384,846
Other post employment benefits (Note G-4)	191,519
Total liabilities	751,818
<b>NET ASSETS</b>	
Invested in capital assets	4,261,023
Restricted for road construction and maintenance	617,673
Restricted for building department	364,836
Unrestricted	2,761,197
Total net assets	\$ 8,004,729

The accompanying notes are an integral part of this financial statement.



Town of Indian River Shores, Florida

STATEMENT OF ACTIVITIES

Year ended September 30, 2010

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
Town council	\$ 16,231	\$ -	\$ -	\$ -	\$ (16,231)
Town manager	169,214	-	-	-	(169,214)
Town treasurer	182,158	-	-	-	(182,158)
Town clerk	94,357	-	-	-	(94,357)
Postal center	344,482	261,090	-	-	(83,392)
Building department	303,351	219,405	-	-	(83,946)
General administration	243,308	-	-	-	(243,308)
Town attorney	91,242	-	-	-	(91,242)
Planning board	34,086	-	-	-	(34,086)
Public safety	3,631,700	25,003	40,484	-	(3,566,213)
Engineering and planning services	1,760	-	-	-	(1,760)
Cemetery	11,192	11,250	-	-	58
Public works	117,132	-	-	-	(117,132)
Culture and recreation	26,867	13,775	-	-	(13,092)
Total	<u>\$ 5,267,080</u>	<u>\$ 530,523</u>	<u>\$ 40,484</u>	<u>\$ -</u>	<u>(4,696,073)</u>

General revenues:

Taxes:	
Property taxes (Note I)	3,386,431
Infrastructure tax	388,949
Half-cent sales tax	212,903
Local option gas tax	48,714
Communications services tax	151,714
Other taxes	1,220
State shared revenues	64,074
Interest income	14,292
Miscellaneous revenue	20,276
Investment income	39,145
Loss on disposal of capital assets	(4,180)
Total general revenues	<u>4,323,538</u>
Change in net assets	<u>(372,535)</u>
Beginning net assets	8,336,838
Prior period adjustment (Note L)	40,426
Beginning net assets, restated	<u>8,377,264</u>
Ending net assets	<u>\$ 8,004,729</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

**BALANCE SHEET - GOVERNMENTAL FUNDS**

September 30, 2010

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents (Notes A-4, B)	\$ 3,841,807	\$ 416,168	\$ 514	\$ 4,258,489
Restricted investments (Note B)	-	95,473	-	95,473
Accounts receivable	6,464	-	-	6,464
Due from other governments	62,862	3,939	-	66,801
Due from other funds (Note D)	14,752	103,507	27,603	145,862
Inventory	-	-	12,545	12,545
Prepaid expenses	55,287	-	-	55,287
Other current assets	465	-	-	465
Total assets	\$ 3,981,637	\$ 619,087	\$ 40,662	\$ 4,641,386
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 70,660	\$ 1,414	\$ 3,341	\$ 75,415
Accrued expenditures	39,553	-	2,168	41,721
Due to other governments	-	-	37	37
Due to other funds (Note D)	131,110	-	14,752	145,862
Other liabilities	369	-	-	369
Deferred revenue	7,760	-	-	7,760
Total liabilities	249,452	1,414	20,298	271,164
Fund balances				
Reserved for prepaids	55,287	-	-	55,287
Reserved for building department	364,836	-	-	364,836
Unreserved:				
Designated for emergency disasters (Note F)	2,466,482	-	-	2,466,482
Designated for cemetery maintenance (Note F)	152,405	-	-	152,405
Undesignated:				
General fund	693,175	-	-	693,175
Special revenue funds	-	617,673	20,364	638,037
Total fund balances	3,732,185	617,673	20,364	4,370,222
Total liabilities and fund balances	\$ 3,981,637	\$ 619,087	\$ 40,662	\$ 4,641,386

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

September 30, 2010

Fund balances - total governmental funds \$ 4,370,222

The net assets 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. Those assets consist of:

Land	\$ 1,428,482	
Buildings, net of \$1,127,693 accumulated depreciation	2,025,386	
Improvements other than buildings, net of \$122,691 accumulated depreciation	151,399	
Furniture, fixtures and equipment, net of \$1,374,887 accumulated depreciation	<u>655,756</u>	4,261,023

Long-term liabilities are not due and payable  
in the current period and therefore are not  
reported in the funds. Those liabilities consist of:

Compensated absences	(434,997)
Other post employment benefits	(191,519)

Total net assets of governmental activities \$ 8,004,729

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended September 30, 2010

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes (Note I)	\$ 3,386,431	\$ -	\$ -	\$ 3,386,431
State revenue sharing	45,472	18,602	-	64,074
Infrastructure tax	388,949	-	-	388,949
Intergovernmental	213,232	54,615	-	267,847
Licenses and permits	-	-	219,405	219,405
Fines and forfeitures	25,003	-	-	25,003
Impact fees	-	492	399	891
Sale of burial rights	11,250	-	-	11,250
Local business tax	17,639	-	-	17,639
Franchise fees and rent	165,489	-	-	165,489
Post office fees	-	-	261,090	261,090
Interest income	14,265	27	-	14,292
Miscellaneous revenue	35,172	-	2,048	37,220
Investment gain (loss)	-	39,145	-	39,145
	<u>4,302,902</u>	<u>112,881</u>	<u>482,942</u>	<u>4,898,725</u>
<b>EXPENDITURES</b>				
Current				
General government	802,516	20,980	625,422	1,448,918
Public safety	3,307,635	-	-	3,307,635
Public works	96,002	13,804	-	109,806
Capital outlay (Note C)	57,836	-	-	57,836
	<u>4,263,989</u>	<u>34,784</u>	<u>625,422</u>	<u>4,924,195</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	38,913	78,097	(142,480)	(25,470)
Other financing sources (uses)				
Proceeds from sale of capital assets	100	-	-	100
Transfers in	-	-	77,000	77,000
Transfers out	(77,000)	-	-	(77,000)
Total other financing sources (uses)	<u>(76,900)</u>	<u>-</u>	<u>77,000</u>	<u>100</u>
<b>Net change in fund balances</b>	<u>(37,987)</u>	<u>78,097</u>	<u>(65,480)</u>	<u>(25,370)</u>
Fund balances, beginning of year	3,770,172	499,150	85,844	4,355,166
Prior period adjustment (Note L)	-	40,426	-	40,426
Fund balances, beginning of year - restated	<u>3,770,172</u>	<u>539,576</u>	<u>85,844</u>	<u>4,395,592</u>
Fund balances, end of year	<u>\$ 3,732,185</u>	<u>\$ 617,673</u>	<u>\$ 20,364</u>	<u>\$ 4,370,222</u>

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended September 30, 2010

Net change in fund balances - total governmental funds \$ (25,370)

The change in net assets 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 those  
assets are allocated over their estimated useful lives and  
reported as depreciation expense.

Total capital outlay	\$ 57,836	
Less depreciation	<u>(262,503)</u>	(204,667)

In the statement of activities, only the net loss on the sale and trade  
of capital assets is reported. However, in the governmental funds,  
the proceeds from the sale increase financial resources.

Thus, the change in net assets differs from the change in  
fund balance. (4,280)

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. These  
expenses are:

Net decrease in compensated absences		53,301
Net increase in other post employment benefits		<u>(191,519)</u>

Change in net assets of governmental activities \$ (372,535)

The accompanying notes are an integral part of this financial statement.

**Town of Indian River Shores, Florida**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**September 30, 2010**

	Pension Trust Funds
<b>ASSETS</b>	
Investments (Note A-4 and B)	\$ 6,647,872
Contribution receivable	34,454
Total assets	\$ 6,682,326
 <b>NET ASSETS</b>	
Net assets held in trust for pension benefits	\$ 6,682,326
Total net assets	\$ 6,682,326

The accompanying notes are an integral part of this financial statement.

Town of Indian River Shores, Florida

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended September 30, 2010

	<u>Pension Trust Funds</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 654,763
Employee	152,096
State	<u>166,620</u>
Total contributions	<u>973,479</u>
Investment gain:	
Net increase in fair value of investments	<u>533,860</u>
Total investment gain	<u>533,860</u>
Total additions	<u>1,507,339</u>
<b>DEDUCTIONS</b>	
Distributions	216,291
Administrative expenses	<u>19,142</u>
Total deductions	<u>235,433</u>
Change in net assets	1,271,906
Plan net assets at beginning of year	<u>5,410,420</u>
Plan net assets at end of year	<u><u>\$ 6,682,326</u></u>

The accompanying notes are an integral part of this financial statement.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

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

The Town of Indian River Shores, Florida (the "Town"), a political subdivision of the State of Florida located in Indian River County, was incorporated in June 1953. The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board (the "GASB"). The more significant accounting policies of the Town are described below.

1. Reporting entity

The Town was created and is governed by Special Act of the Legislature by Chapter 29163, Laws 1953, as amended by Ordinance Numbers 1 through 217. The Town is governed under the Town Manager-Council form of government, and by the Town Charter and state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council appointed Town Manager.

The Town engages in a comprehensive range of municipal services, including general administration, public safety, administration of the physical environment, roads and streets, postal services, and cemetery services.

The reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

In evaluating the Town as a reporting entity, management has addressed all potential component units that may or may not fall within the Town's oversight and control, and thus, be included in the Town's financial statements. The Town did not exercise oversight responsibility over any other potential component units. The financial statements of the Town consist only of the operations of the Town; thus, there are no component units included.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information on all of the nonfiduciary activities of the primary government as a whole. As part of the consolidation process, all interfund activities are eliminated from these statements.



**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2. Government-wide and fund financial statements (continued)

Net assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets and unrestricted net assets. Net assets are reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function or segment and its program revenues, and displays the extent to which each function or segment contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function or segment. Indirect expenses are costs the Town has allocated to functions through various allocation methods. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate fund financial statements are provided for the governmental funds and fiduciary funds, although the latter is excluded from the government-wide financial statements. The focus of governmental fund financial statements is on major funds. Therefore, major funds are reported as separate columns in the fund financial statements and non-major funds are aggregated and presented as a single column on each statement. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. 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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting and financial statement presentation (continued)

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

Property taxes, franchise taxes, licenses and permits, charges for services, fines and forfeitures and other revenues (except for investment earnings) associated with the current period are all considered to be susceptible to accrual and thus, have been recognized as revenues of the current fiscal period. Investment earnings are recorded when earned.

The Town reports the following major governmental funds:

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

*Road and Bridge Fund* - The Road and Bridge Fund accounts for receipts of impact fees collected per dwelling unit from property developers upon issuance of building permits, in addition to local option gas tax, state revenue sharing, and infrastructure tax revenues remitted by the State of Florida.

Additionally, the Town reports the following fund:

*Pension Trust Fund* - This fund is used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations and other governmental units. It accounts for the assets of the Town's defined benefit pension plan and the Town's defined contribution 401(a) plan.

The Pension Trust Fund's measurement focus is on the determination of net income and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The Pension Trust Fund operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting and financial statement presentation (continued)

The Pension Trust Fund uses the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

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.

4. Cash, cash equivalents, and investments

Cash includes demand deposits, cash on hand, and short-term investments with a maturity date within three months of the date acquired by the Town. Investments of the pension trust fund are held by insurance companies and are stated at market value. Income from investments owned by the individual funds are recorded in the respective funds as earned, and allocated to designated fund balances according to resolutions enacted by Town Council.

5. Receivables

The Town's receivables consist of balances due from other government sources, businesses, and individuals. After reviewing the individual account balances, the Town's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activity between the various funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to or due from other funds.

7. Capital assets

Capital assets, which include land, buildings, improvements other than buildings, and furniture, fixtures, and equipment, are reported in the government-wide financial statements. The Town defines capital assets as assets that are capital in nature, that have an initial individual cost of more than \$500 and a life expectancy of more than one year. The cost of improvements and replacements that extend the useful lives of assets are capitalized. Repairs and maintenance costs that do not improve or extend the useful life of the respective assets are not capitalized.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets (continued)

Capital assets are stated at cost or, if donated, at estimated fair value at the date of donation. Contributions of fixed assets received from local sources are recorded as contributions when received. The cost of property sold or retired, together with the related accumulated depreciation, is removed from the appropriate accounts, and any resulting gain or loss is included in net income.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

<u>Asset class</u>	<u>Estimated useful lives (years)</u>
Buildings	5 - 40
Improvements other than buildings	5 - 30
Furniture, fixtures and equipment	3 - 43

General infrastructure assets acquired prior to October 1, 2003 are not reported in the basic financial statements.

8. Compensated absences

All full-time employees earn sick leave at the rate of one shift day per month. The sick leave may be accumulated up to a maximum of 160 days. If an employee retires or terminates in good standing after 20 years of service, a reduced value of unused sick leave will be paid at the employee's current rate of pay.

The Town accrues vacation and sick leave based on current compensation levels in accordance with accounting principles generally accepted in the United States of America. The entire compensated absences liability is reported on the government-wide financial statements.

9. Income tax

The Town qualifies as a tax-exempt entity and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Accounting standards adopted

For the year ended September 30, 2010, the Town adopted the following statements of financial accounting standards issued by GASB:

*Statement No. 45, Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*

Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of Other Post Employment Benefits ("OPEB") cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether, and to what extent progress is being made in funding the plan.

11. Inventory

Inventories are valued at cost which approximates market, using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when used.

12. Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The Town had the following cash and investments at September 30, 2010:

	<u>Fair Value</u>	<u>Duration</u>	<u>Rating</u>
Government-wide			
Cash	\$ 511,314	N/A	Not rated
Money market account	3,745,292	N/A	Not rated
Local government pooled investment accounts:			
Florida PRIME	1,883	33 days	AAAm
Fund B	<u>95,473</u>	6.69 years	Not rated
	<u>\$ 4,353,962</u>		
Defined benefit plans			
Cash	75,818	N/A	Not rated
Fixed income fund	2,369,328	3.70 years	AA/V4 (Fitch)
Equity funds	<u>3,873,061</u>	Less than 1 year	Not rated
	<u>\$ 6,318,207</u>		
Defined contribution plan			
Mutual funds	<u>\$ 364,119</u>	N/A	Not rated

The Town's deposits and investments are insured by the Federal Depository Insurance Corporation ("FDIC") for up to \$250,000. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the Town pursuant to Section 280.08, Florida Statutes. Financial institutions must meet the criteria of being a Qualified Public Depository as described in the Florida Security for Public Deposits Act, under Chapter 280, Florida Statutes, before any investments are made with those institutions.

The local government pooled investment account is administered by the State Board of Administration and is composed of local government surplus funds deposited therein by units of local government. The investing of public funds with the State Board of Administration is governed by Section 218.407, Florida Statutes. The investments with the State Board of Administration consist largely of federal agency obligations, repurchase agreements, banker's acceptance and commercial paper.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

On December 23, 2008, all Local Government Investment Pool ("LGIP") fund balances became 100% liquid. The LGIP was given a new name, "Florida PRIME," on August 3, 2009. The Florida PRIME is operated as a "2a-7 like" money market fund. As of September 30, 2010, the Town had \$1,883 in the Florida PRIME.

Currently, Fund B participants are prohibited from withdrawing funds from Fund B. As maturities occur in Fund B, the monies are released and transferred to the Florida PRIME Fund. Since October 1, 2009, \$39,532 of the Town's monies in Fund B have been released, leaving a balance of \$135,029. The SBA's interpretation in regards to Fund B is that it does not meet the requirements of a SEC 2a-7 like fund; therefore, Fund B uses the fluctuating net asset value ("NAV") for valuation. The current value of Fund B at September 30, 2010 is \$95,473, which is currently recorded as restricted cash and cash equivalents in the financial statements.

During the 2008 fiscal year, the Town made the decision to no longer deposit money into the SBA accounts and transfer all money available to a money market account.

The investments included in the Town's defined benefit plan are with an investment pool and not the securities that make up the pool.

*Interest rate risk* - The interest rate risk is the risk that the value of investments will decrease as a result of a change in interest rates. The interest bearing deposits maintained by the Town earned on average 0.35% on deposits during the year ending September 30, 2010.

The interest rate risk associated with the defined benefit plan is included in the above table. At year end, none of the Town's investments in the defined contribution plan were subject to interest rate risk as they were part of a mutual fund.

*Credit risk* - The Town's adopted investment guidelines require that the investments of the Town be limited to those investments contained in Florida Statutes 218.415(17) subparagraphs (a) through (d), which allow investments in the local government pooled investment account, securities and exchange commission required money market funds with the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury. The Town's investment policy does not further limit its investment choices. As of September 30, 2010, the state investment pool Fund B was not rated by a nationally recognized rating agency however Fund A was rated by S&P as noted in the table above. The credit risk associated with the defined benefit plan is included in the above table. Ratings are set by nationally recognized statistical rating organizations (Fitch and Moody's, S&P).

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE C - CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,428,482	\$ -	\$ -	\$ 1,428,482
Capital assets, being depreciated:				
Buildings	3,148,254	\$ 9,768	\$ 4,943	3,153,079
Improvements other than buildings	253,070	-	-	253,070
Furniture, fixtures and equipment	2,013,390	48,068	9,795	2,051,663
Total capital assets being depreciated	<u>5,414,714</u>	<u>\$ 57,836</u>	<u>\$ 14,738</u>	<u>5,457,812</u>
Less accumulated depreciation for:				
Buildings	1,037,422	\$ 93,019	\$ 2,748	1,127,693
Improvements other than buildings	93,543	8,128	-	101,671
Furniture, fixtures, and equipment	1,242,261	161,356	7,710	1,395,907
Total accumulated depreciation	<u>2,373,226</u>	<u>\$ 262,503</u>	<u>\$ 10,458</u>	<u>2,625,271</u>
Total capital assets, being depreciated, net	<u>3,041,488</u>			<u>2,832,541</u>
Governmental activities capital assets, net	<u>\$ 4,469,970</u>			<u>\$ 4,261,023</u>

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

General government	\$ 44,512
Public safety	183,561
Public works	17,124
Culture and recreation	17,306
	<u>          </u>
	<u>\$ 262,503</u>



**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE D - INTERFUND ACTIVITY**

Due to/from other funds at September 30, 2010 is summarized as follows:

Fund	Due from other funds	Due to other funds
General fund	\$ 14,752	\$ 131,110
Road and bridge fund	103,507	-
Other governmental funds	27,603	14,752
	\$ 145,862	\$ 145,862

Interfund transfers include transfers of unrestricted revenues collected in various funds to finance various programs accounted for in other funds, in accordance with budgetary authorizations. The due to/from balances resulted from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. The Town intends to pay the above interfund balances within the coming year.

Transfers from one fund of the reporting entity to another, which are not repayable and do not constitute payment or reimbursement for goods provided or services performed, are termed intragovernmental transfers out. In the current year, the General Fund transferred funds of \$77,000 to the Postal Center to help cover the expenditures in the fund.

**NOTE E - LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2010:

	Balance at October 1, 2009	Increase	Decrease	Balance at September 30, 2010	Due within one year
Accrued compensated absences (Note A-8)	\$ 488,298	\$276,855	\$330,156	\$ 434,997	\$ 50,151

Compensated absences in the governmental activities are classified as non-current liabilities and are typically liquidated by the general fund.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE F - FUND EQUITY AND NET ASSETS**

1. Restrictions, reservations, and designations of fund equity and net assets

**Restrictions on net assets** - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

The following describes the designations and reserves used by the Town:

**Restricted / reserved for road construction and maintenance** - Reserved road construction and maintenance items are those which are restricted specifically for road and bridge expenses as required by the Florida Statutes.

**Reserved for prepaids** - Prepaid items in the general fund are considered nonexpendable current assets. The measurement focus on governmental fund assets indicates whether the assets are available for expenditure. As prepaid items are not available for expenditure, a reserve is maintained to indicate the unavailability of these assets.

**Restricted / reserved for building department** - Building department items include building permit revenues that must be expended for building department use.

**Designated for emergency disasters** - Fund balance represents tentative plans by the Town Council to ensure funding for repairs and recovery expenditures related to the natural disaster damages affecting the Town.

**Designated for cemetery maintenance** - Fund balance represents tentative plans by the Town Council for funds designated for the upkeep and maintenance of the cemetery.

The activity in the designated general fund balances during the year ended September 30, 2010 is as follows:

	Balance, October 1, 2009	Transfers - in	Transfers - out	Balance, September 30, 2010
Emergency disasters	\$ 2,459,105	\$ 7,377	\$ -	\$ 2,466,482
Cemetery maintenance	150,425	1,980	-	152,405
	<u>\$ 2,609,530</u>	<u>\$ 9,357</u>	<u>\$ -</u>	<u>\$ 2,618,887</u>

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

**NOTE F - FUND EQUITY AND NET ASSETS (continued)**

1. Restrictions, reservations, and designations of fund equity and net assets (continued)

The addition of \$7,377 to the designation for emergency disasters consists of unreserved fund balance allocated to the designation. The allocation is based on a calculation using the average interest earned by the Town. The increase to the designation for cemetery maintenance is based on a calculation using the average interest earned by the Town and the net effect of the cemeteries activity for the year. The amount designated to the cemetery maintenance in the current year totaled \$1,980.

Total general fund balance reflects a positive balance of \$3,732,410, with the designated amounts shown above representing the tentative plans of the Town Council. All unreserved fund balances, both designated and undesignated, are available to finance future expenditures.

2. Deficit fund equity

Postal Center Fund - This fund has a deficit of \$3,750, which will be eliminated in future years.

**NOTE G - PENSION PLANS**

The Town maintains two single employer pension plans with the Florida Municipal Pension Trust Fund. The Town of Indian River Shores Defined Contribution Pension Plan is a two part plan: employer funded defined contribution and employee funded deferred compensation plans. These, as well as the Town of Indian River Shores Defined Benefit plan, are outlined below. Eligible non-Public Safety Officers may elect to participate in only one of the two plans. Public Safety Officers may participate in the defined benefit plan only. Public Safety Officers are also automatically enrolled in the Public Safety Officer Share Plan. Voluntary additional contributions into the deferred compensation plan may be made by employees participating in either plan.

1. Defined contribution plan & deferred compensation plan

*Defined Contribution Plan Description:*

The Defined Contribution Plan is a single-employer plan, administered by the Florida Municipal Pension Trust Fund ("FMPTF"). It covers all full time employees, except Public Safety Officers, who elect to participate. Currently, membership in the plan consists of 7 active employees. The Town does not issue a stand-alone plan financial report.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

**NOTE G - PENSION PLANS (continued)**

1. Defined contribution plan & deferred compensation plan (continued)

*Funding Policy:*

The plan specifies employer contributions as “matching”, meaning the Town will contribute 11% of each participating employee’s base compensation only if the employee contributes 5%, or more (before taxes), of their base compensation to the 457(b) Deferred Compensation Plan. Employees may join the defined contribution plan only after completing 1,000 hours of service within a consecutive twelve month period. Following completion of the required hours, employees may first become a member on the earlier of October 1 or April 1, whichever comes first. The Town’s current year contributions to the defined contribution plan totaled \$36,200. Participants become 20% vested in the values resulting from employer contributions plus earnings after 3 years of employment service. Vesting increases by 20% for each additional year of employment with participants becoming fully vested after 7 years.

*Deferred Compensation Plan Description:*

The Town became a participating employer in the FMPTF 457(b) Deferred Compensation Plan in October 2005. This plan allows any employee from any department to participate, subject to federal contribution limits. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

*Funding Policy:*

For Defined Contribution Plan employee participants, a minimum of 5% of compensation, net of overtime, must be contributed by the employee. Other employees’ contributions to this deferred compensation plan are discretionary, subject to federal limits. Employees may begin participating in this plan immediately upon hire and enrollment, with the required documents, but no later than entry date to the defined contribution plan, if eligible and participation is elected. Employee contributions totaled \$16,455 for the current year.

All assets and income of the deferred compensation plan through FMPTF are held in trust for the exclusive benefit of the participants and their beneficiaries and are 100% vested upon contribution. Therefore, assets of the plan are not reportable in the accompanying financial statements.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE G - PENSION PLANS (continued)**

2. Town of Indian River Shores defined benefit plan

*Plan Description:*

The Defined Benefit Plan is a single-employer defined benefit pension plan administered by the FMPTF. The Plan covers all the Town's full-time employees that have elected to participate. Membership in the plan consists of 24 active employees during the year ended September 30, 2010. The defined benefit plan provides retirement and death benefits to plan members and beneficiaries. The Town has authority to establish and amend the plan provided such does not diminish or adversely affect benefit provisions. The plan is divided into two separate groups: Group A consists of all general employees, not including public safety officers, and Group B consists of all public safety officers. The Plan is reported as a pension trust fund and is included as part of the Town's reporting entity.

*Funding Policy:*

Plan members for both Group A and B were required to contribute minimum of 5% and maybe required to contribute up to a maximum of 9% (before taxes) of their annual compensation. The Town is required to contribute at an actuarially determined rate. When the employer's required contribution exceeds 11% of covered payroll (meaning the plan is under-funded), the excess liability is to be split by the Town and the active employee participants. The excess contributions are allocated between the Town and active employees in direct proportion of the employee contributions to the employer contributions. The Town and the employees split the excess liability up until the employee contribution reached the maximum of 9%, thus requiring the Town to contribute at an actuarial determined rate of 42.09% of covered payroll for Group A and 34.77% of covered payroll for Group B. Administrative costs are financed through investment earnings.

*Annual Pension Cost and Net Pension Obligation:*

An actuarial valuation report was issued for the year ended September 30, 2010 and dated as of October 1, 2009. The current year actuarial uses individual entry age normal actuarial cost method. The annual required contribution for the years ended September 30, 2008 and 2009 was determined as part of the actuarial valuation dated October 1, 2007, using the aggregate actuarial cost method. The annual required contribution for the years ended September 30, 2005, 2006, and 2007 was determined as part of the actuarial valuation dated October 1, 2004, using the individual entry age normal actuarial cost method. Under both actuarial cost methods, annual pension cost was equal to, or exceeded the Town's required contributions.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE G - PENSION PLANS (continued)**

2. Town of Indian River Shores defined benefit plan (continued)

Significant actuarial assumptions used to compute the annual contribution requirement are as follows:

Valuation Date	October 1, 2009
Actuarial Cost Method	Individual entry age normal cost
Amortization Method	Level-dollar payment over a closed period
Remaining Amortization Period	15 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Investment rate of return	7.75% compounded annually
Projected salary increases	5.00% per year

The following is a schedule of the Town's contributions to the defined benefit plan for September 30, 2010 and the preceding two years:

Year ended September 30,	Annual required contributions	Percent contributed	Actual Contributions
2008	\$ 454,297	147%	\$ 668,920
2009	475,633	100%	477,423
2010	581,174	106%	618,563

The actuarial valuation assumptions in the report dated October 1, 2004 included (a) 8.5% investment rate of return (net of expenses) and (b) projected salary increases of 6% per year. Both of these assumptions included an inflation component of 3.5%. The actuarial valuation assumptions in the report dated October 1, 2008 includes a (a) 7.75% investment rate of return (net of expenses), which is a decrease of .25% compared to the prior year, and projected salary increases of 5% per year.

3. Town of Indian River Shore's public safety officer share plan

*Plan Description:*

The Town's Public Safety Officer Share Plan was adopted to implement the provisions of Chapters 175 and 185, Florida Statutes, and to provide a mechanism to pay required "extra benefits" to the public safety officers based on the growth of insurance premium tax revenue pursuant to Chapters 175 and 185. The Plan is administered by the FMPTF. The monies are to be an additional benefit to the public safety officers that are participants of the Town's defined benefit plan mentioned above; 24 employees as of September 30, 2010. In accordance with provisions of Florida Statute 175 and 185, each participant is entitled to one share for each year of credited service as a public safety officer of the Town, measured from October 1, 2006.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE G - PENSION PLANS (continued)**

3. Town of Indian River Shores defined benefit plan (continued)

*Funding Policy:*

The monies to fund this plan shall be derived exclusively from monies received from the state and not from any additional taxes levied by the Town. The Town shall bear no expense in respect to the operation of this plan. The Board of Trustees shall pay all costs and expenses associated with the management and operation of this plan for the year. They may also set aside monies needed to cover expenses for the next fiscal year. After all expenses are covered, the Board of Trustees will then allocate and credit to the fund all monies left over on behalf of the participants of the plan. State contributions for the fiscal year ended September 30, 2010 totaled \$166,620.

4. Post Employment Benefits Other Than Pensions ("OPEB")

*Plan Description:*

The Town of Indian River Shores provides health and life insurance benefits to its retired employees through a single-employer plan administered by the Town. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the Town or its major component unit and eligible dependents, may continue to participate in the Town's fully-insured benefit plan for medical, prescription drug, dental, vision and life insurance coverages. The Town subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, pursuant to a policy adopted by the Town Council on September 26, 2002, eligible retirees receive insurance coverage at explicitly subsidized premium rates - rates that are lower than full blended rates charged by the insurance vendors. Amount of subsidy depends on service with the Town at the time of Retirement and is described below. The benefits provided under this defined benefit plan are provided for a retiree's lifetime (or until such time at which retiree discontinues coverage under the Town sponsored plans, if earlier). Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a separate, publicly available report.

The Town provides direct subsidies for retiree health, dental, vision and life coverage costs. The service based subsidy (discount) requires a minimum of 7 years of service at retirement and is calculated as: 1.5% for each of the first 7 years of service plus 2.0% for each full year of service between 8 and 15 years of service, and 2.5% for each full year of service in excess of 15 (but not beyond 25). The maximum subsidy, for employees retiring with 25 years of service with the Town or more, is 51.5% of the applicable premium.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - PENSION PLANS (continued)

4. Post Employment Benefits Other Than Pensions ("OPEB") (continued)

*Funding Policy:*

Contribution rates for the Plan are established on an annual basis. Eligible retirees and their covered dependents receiving benefits contribute 100% of their premium costs for medical insurance, except as noted above. The ability of retirees to obtain health insurance coverage at a group rate which includes active employees constitutes a significant economic benefit to retirees, or an "implicit" subsidy. This implicit subsidy is considered to be an Other Post Employment Benefit (OPEB) obligation of the Town. The Town is currently funding this OPEB obligation on a pay-as-you-go basis, contributing only those amounts necessary to provide for its portion of current year benefit costs and expenses. For the year ended September 30, 2010, the Town estimates it subsidized \$34,465 of medical costs for its retirees and their covered dependents.

*Annual OPEB Cost and Net OPEB Obligation:*

The Town's annual OPEB cost (expense) is calculated based on an annual required contribution of the employer ("ARC"), an amount calculated using the Alternative Measurement Method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize an unfunded liability of the plan over a period not to exceed fifteen years.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and change in the Town's net OPEB obligation to the Town's Plan, including the implicit rate subsidy for insurance:

Annual Required Contribution (ARC)	\$ 225,984
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>225,984</u>
Contributions made	(34,465)
Interest on employer contribution	-
Increase in net OPEB obligation	<u>191,519</u>
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 191,519</u></u>

As of September 30, 2010, no trust has been established for the Plan.



**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE G - PENSION PLANS (continued)**

4. Post Employment Benefits Other Than Pensions ("OPEB") (continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2010, are presented below. Data is only presented for fiscal year ending September 30, 2010, the first year in which GASB Statement 45 implementation is required.

The following is the schedule of employer contributions:

Percentage of Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2010	\$ 225,984	15%	\$ 191,519

The following is the schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered payroll	UAAL as % of Covered Payroll
9/30/2010	\$ -	\$ 1,815,609	\$ 1,815,609	0.0%	\$2,119,284	85.7%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations.

In the September 30, 2010 valuation, a discount rate of 3.50% was used, based on the historical and expected returns of the Employer's short-term investment portfolio. An inflation rate of 3.00% was assumed. In addition, the Entry Age Normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2010 was 15 years. Health insurance trends start at 6.00% for the fiscal year ending in 2011 and 5.75% for 2012, grading down to 5.00% at the ultimate trend rate by 2015.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE H - ICMA DEFERRED COMPENSATION PLAN**

The Town offers its employees a second deferred compensation plan, administered by ICMA Retirement Corporation, created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. Any employee may begin participating in this plan immediately upon hiring and enrollment with the required documents. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In fiscal year 2002, Town Council passed a motion to allow the Town Manager, upon hire, to substitute the ICMA deferred compensation plan for the Town's defined benefit or defined contribution plan participation choices. In fiscal year 2004, Town Council passed a resolution acknowledging the Building Official, upon hire, as a participant in the ICMA deferred compensation plan, also in lieu of participation in either the Town's defined benefit or defined contribution plan choices. The amount contributed (11% of base compensation) on behalf of the Town Manager and Building Official were \$14,521 and \$14,139, respectively, for a total of \$28,660 for the year ended September 30, 2010.

All assets and income of the ICMA plan, as with the FMPTF plan, are held in trust for the exclusive benefit of the participants and their beneficiaries and are 100% vested upon contribution. Therefore, assets of the plan are not reportable in the accompanying financial statements.

**NOTE I - PROPERTY TAX**

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 Indian River County Property Appraiser and Indian River County Tax Collector. The laws of the State of Florida regulating tax assessments are also designed to assure a consistent property valuation method statewide. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2010, the Town's millage rate was 1.3923 mills. The tax levy of the Town is established by the Town Council prior to October 1<sup>st</sup> of each year and the Indian River County Property Appraiser incorporates the Town millages into the total tax levy, which includes Indian River County and the County School Board tax requirements among other overlapping governments.

All property is reassessed according to its fair market value on January 1<sup>st</sup> of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes. The assessed value at January 1, 2010, upon which the 2009-2010 levy was based, was approximately \$2.5 billion.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE I - PROPERTY TAX (continued)**

All taxes are due and payable on November 1<sup>st</sup> (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. Taxes paid in March are paid without discount. Current tax collections, net of discounts taken, for the year ended September 30, 2010 were approximately 97% of the total tax levy.

On or prior to June 1<sup>st</sup> of each fiscal year, tax certificates are sold 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 are held by Indian River County.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

From time to time, the Town is a defendant in various legal actions arising in the day-to-day operations of the Town. In the opinion of management, based upon information available at this time, the ultimate disposition of these matters will not have a material adverse effect on the Town's financial condition and results of operations.

**NOTE K - 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. In order to limit its exposure to these risks, the Town is a participant in the Florida League of Cities (a not-for-profit corporation) insurance program for workers compensation, general and auto liability. The insurance program purchases excess and specific coverages from third party carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. Participants are not assessed for unanticipated losses incurred by the program. Additionally, the Town has purchased commercial property insurance and various other insurance coverages from third parties to cover other risks that the Town may be exposed to. Premiums paid by the Town during the year totaled \$228,035. There have been no significant reductions in insurance coverages during fiscal year 2010. Settled claims resulting from the risks described above have not exceeded the insurance coverage in any of the previous three years.

**Town of Indian River Shores, Florida**

**NOTES TO FINANCIAL STATEMENTS**

**September 30, 2010**

**NOTE L - PRIOR PERIOD ADJUSTMENT**

The prior period financial statements reflected an overstatement of a loss on investments. The reversal of the overstatement results in an increase in net assets on the Statement of Activities and an increase in fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balance in the amount of \$40,426.

**NOTE M - SUBSEQUENT EVENT**

1. GASB 54 - Fund Balance Reporting and Governmental Fund Type Definitions

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB 54"), to address issues related to how fund balance is reported. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds. Governments are required to implement GASB 54 in their financial statements for periods beginning after June 15, 2010. As of the date of the auditor's report, the effects of the new pronouncement are not quantifiable for disclosure purposes.

2. Evaluating subsequent events

The municipality has evaluated subsequent events through January 4, 2011, the date which the financial statements were issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

Town of Indian River Shores, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET TO ACTUAL - GENERAL FUND**

Year ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 3,376,974	\$ 3,383,474	\$ 3,386,431	\$ 2,957
State revenue sharing	46,000	46,000	45,472	(528)
Infrastructure tax	375,641	386,641	388,949	2,308
Intergovernmental	209,835	209,835	213,232	3,397
Fines and forfeitures	21,028	21,428	25,003	3,575
Sale of burial rights	5,000	11,000	11,250	250
Local business tax	12,000	17,000	17,639	639
Franchise fees and rent	173,375	173,375	165,489	(7,886)
Interest income	26,000	19,579	14,265	(5,314)
Miscellaneous revenue	4,148	39,948	35,172	(4,776)
	<u>4,250,001</u>	<u>4,308,280</u>	<u>4,302,902</u>	<u>(5,378)</u>
<b>EXPENDITURES</b>				
Current				
General government	894,067	1,053,167	802,516	250,651
Public safety	3,285,394	3,337,394	3,307,635	29,759
Public works	92,278	86,378	96,002	(9,624)
Capital outlay	27,550	65,350	57,836	7,514
	<u>4,299,289</u>	<u>4,542,289</u>	<u>4,263,989</u>	<u>278,300</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(49,288)</u>	<u>(234,009)</u>	<u>38,913</u>	<u>272,922</u>
Other financing source (uses)				
Proceeds from sale of capital assets	-	-	100	100
Transfers out	(77,000)	(77,000)	(77,000)	-
Total other financing sources (uses)	<u>(77,000)</u>	<u>(77,000)</u>	<u>(76,900)</u>	<u>100</u>
<b>Net change in fund balances</b>	<u>(126,288)</u>	<u>(311,009)</u>	<u>(37,987)</u>	<u>273,022</u>
Fund balances, beginning of year	<u>3,770,172</u>	<u>3,770,172</u>	<u>3,770,172</u>	<u>-</u>
Fund balances, end of year	<u>\$ 3,643,884</u>	<u>\$ 3,459,163</u>	<u>\$ 3,732,185</u>	<u>\$ 273,022</u>

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET TO ACTUAL - ROAD AND BRIDGE FUND**

Year ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
State revenue sharing	\$ 18,391	\$ 18,391	\$ 18,602	\$ 211
Intergovernmental	10,147	10,147	54,615	44,468
Impact fees	246	246	492	246
Interest income	3,500	3,500	27	(3,473)
Investment gain (loss)	-	-	39,145	39,145
	<u>32,284</u>	<u>32,284</u>	<u>112,881</u>	<u>80,597</u>
<b>EXPENDITURES</b>				
Current				
General government	31,978	23,978	20,980	2,998
Public works	9,766	17,766	13,804	3,962
	<u>41,744</u>	<u>41,744</u>	<u>34,784</u>	<u>6,960</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(9,460)</u>	<u>(9,460)</u>	<u>78,097</u>	<u>87,557</u>
Other financing uses:				
Transfers in	9,460	9,460	-	(9,460)
Total other financing uses	<u>9,460</u>	<u>9,460</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>-</u>	<u>-</u>	<u>78,097</u>	<u>87,557</u>
Fund balances, beginning of year	539,576	539,576	499,150	(40,426)
Prior period adjustment	-	-	40,426	40,426
Fund balances, beginning of year - restated	<u>539,576</u>	<u>539,576</u>	<u>539,576</u>	<u>-</u>
Fund balances, end of year	<u>\$ 539,576</u>	<u>\$ 539,576</u>	<u>\$ 617,673</u>	<u>\$ 47,131</u>

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

SCHEDULE OF FUNDING PROGRESS

Year ended September 30, 2010

<b>Defined Benefit Plan</b>						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll [(b-a)/c]
October 1, 2002	\$ 1,819,204	\$ 2,201,783	\$ 382,579	82.6%	\$ 785,470	48.7%
October 1, 2003	\$ 1,776,203	\$ 2,500,699	\$ 724,496	71.0%	\$ 787,984	91.9%
October 1, 2004	\$ 1,920,017	\$ 2,715,010	\$ 794,993	70.7%	\$ 803,397	99.0%
October 1, 2005	\$ 2,065,710	\$ 2,065,710	\$ -	100.0%	\$ 831,516	0.0%
October 1, 2006	\$ 2,362,978	\$ 2,362,978	\$ -	100.0%	\$ 860,619	0.0%
October 1, 2007	\$ 4,104,494	\$ 4,104,494	\$ -	100.0%	\$ 1,686,300	0.0%
October 1, 2008	\$ 4,198,311	\$ 7,693,066	\$ 3,494,755	54.6%	\$ 1,115,829	313.2%
October 1, 2009	\$ 5,042,263	\$ 7,831,910	\$ 2,789,647	64.4%	\$ 1,752,921	159.1%

<b>Other Post Employment Benefits*</b>						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll [(b-a)/c]
September 30, 2010	\$ -	\$ 1,815,609	\$ 1,815,609	0.0%	\$ 2,119,284	85.7%

\*Note - This is the first year of the calculation. Additional information will be added as it becomes available.

See accompanying note to required supplemental information.



**Town of Indian River Shores, Florida**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**September 30, 2010**

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

1. Budgets and budgetary accounting

The following procedures are used to establish and maintain operating budgets of the Town:

Prior to August 1<sup>st</sup> of each year, the Town Manager, in consultation with the finance committee, submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>.

Public hearings are conducted to obtain taxpayer suggestions. If changes are suggested by the taxpayers, Town Council considers those changes, and votes to incorporate them if deemed appropriate.

Prior to October 1<sup>st</sup>, the budgets are legally enacted through passage of a resolution.

The Town Council is authorized to amend the budget to utilize excess funds, to increase appropriations, to transfer funds, or for any other purpose. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for certain tax revenue, which are on a cash basis and encumbrances that are considered as the equivalent of expenditures and are reserved at year-end for governmental funds.

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. Fund level is the legal level of budgetary control. Budgetary information is integrated into the accounting system and appropriations are controlled at the object level within each department for management control purposes.

**SUPPLEMENTAL COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS**

## **GENERAL FUND**

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The General Fund is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in another fund.

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**Town of Indian River Shores, Florida**

**GENERAL FUND  
COMPARATIVE BALANCE SHEETS**

**September 30,**

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,841,807	\$ 3,808,516
Accounts receivable	6,464	1,258
Due from other governments	62,862	59,765
Due from other funds	14,752	36,250
Prepaid expenses	55,287	60,358
Other current assets	465	8,664
Total assets	\$ 3,981,637	\$ 3,974,811
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 70,660	\$ 41,319
Accrued expenditures	39,553	35,373
Due to other funds	131,110	97,981
Deposits	-	22,460
Other liabilities	369	5
Deferred revenue	7,760	7,501
Total liabilities	249,452	204,639
Fund balances		
Reserved for prepaids	55,287	60,358
Reserved for building department	364,836	364,836
Unreserved:		
Designated for emergency disasters	2,466,482	2,459,105
Designated for cemetery maintenance	152,405	150,425
Undesignated	693,175	735,448
Total fund balances	3,732,185	3,770,172
Total liabilities and fund balances	\$ 3,981,637	\$ 3,974,811

**Town of Indian River Shores, Florida**

**GENERAL FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

**Years ended September 30,**

	2010	2009
<b>REVENUES</b>		
Property taxes	\$ 3,386,431	\$ 3,467,708
State revenue sharing	45,472	45,768
Infrastructure tax	388,949	382,117
Intergovernmental	213,232	209,975
Fines and forfeitures	25,003	20,093
Sale of burial rights	11,250	8,725
Local business tax	17,639	18,132
Franchise fees and rent	165,489	175,488
Interest income	14,265	24,932
Miscellaneous revenue	35,172	5,579
Investment gain (loss)	-	2,152
	4,302,902	4,360,669
<b>EXPENDITURES</b>		
Current		
General government	802,516	661,889
Public safety	3,307,635	3,229,482
Public works	96,002	99,847
Capital outlay	57,836	23,246
	4,263,989	4,014,464
<b>Excess (deficiency) of revenues over (under) expenditures</b>	38,913	346,205
Other financing sources (uses)		
Proceeds from sale of capital assets	100	225
Transfers out	(77,000)	(180,347)
Total other financing sources (uses)	(76,900)	(180,122)
<b>Net change in fund balances</b>	(37,987)	166,083
Fund balances, beginning of year	3,770,172	3,580,245
Prior period adjustment	-	23,844
Fund balances, beginning of year - restated	3,770,172	3,604,089
Fund balances, end of year	\$ 3,732,185	\$ 3,770,172

## **ROAD AND BRIDGE FUND**

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The Road and Bridge Fund accounts for receipts of impact fees collected per dwelling unit from property developers upon issuance of building permits and motor fuel tax and local option gas tax revenues remitted by the State of Florida.

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**Town of Indian River Shores, Florida**

**ROAD AND BRIDGE FUND  
COMPARATIVE BALANCE SHEETS**

**September 30,**

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 416,168	\$ 453,175
Restricted investments	95,473	55,434
Due from other governments	3,939	4,177
Due from other funds	103,507	-
Total assets	\$ 619,087	\$ 512,786
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 1,414	\$ 767
Due to other funds	-	12,869
Total liabilities	1,414	13,636
Fund balances		
Unreserved	617,673	499,150
Total liabilities and fund balances	\$ 619,087	\$ 512,786

**Town of Indian River Shores, Florida**

**ROAD AND BRIDGE FUND  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

**Years ended September 30,**

	2010	2009
<b>REVENUES</b>		
State revenue sharing	\$ 18,602	\$ 18,363
Intergovernmental	54,615	45,937
Impact fees	492	492
Interest income	27	2,333
Investment gain (loss)	39,145	(78,701)
	112,881	(11,576)
<b>EXPENDITURES</b>		
Current		
General government	20,980	20,379
Public works	13,804	27,890
Capital outlay	-	7,181
	34,784	55,450
<b>Net change in fund balances</b>	<b>78,097</b>	<b>(67,026)</b>
Fund balances, beginning of year	499,150	566,176
Prior period adjustment	40,426	-
Fund balances, beginning of year - restated	539,576	566,176
Fund balances, end of year	<b>\$ 617,673</b>	<b>\$ 499,150</b>



## **NONMAJOR GOVERNMENTAL FUNDS**

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Nonmajor governmental funds, typically special revenue funds, are used to account for specific revenues that are legally restricted to expenditure for particular purposes and were not deemed a major fund by GASB 34 standards.

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**Bike Path and Pedestrian Way Fund** - This fund accounts for the receipt of impact fees per dwelling unit upon issuance of building permits. Expenditures are for expansion and related costs.

**Radon Gas Fund** - This fund accounts for the receipt of impact fees per dwelling unit upon issuance of building permits. These revenues are remitted to the Florida Department of Business and Professional Regulation and the Florida Department of Community Affairs. The Town may retain up to 10% of total revenues as an administrative service fee.

**Planning, Zoning and Building Fund** - The Planning, Zoning and Building Fund has been created for all building department revenues and expenditures. Additionally this fund accounts for the receipt of County impact fees. These revenues are remitted to Indian River County. The Town may retain up to 2% of total impact fee revenues as an administrative service fee.

**Postal Center Fund** - The Postal Center Fund has been created for all revenues and expenditures related to the operations of the post office

Town of Indian River Shores, Florida

NONMAJOR GOVERNMENTAL FUNDS  
COMPARATIVE COMBINING BALANCE SHEETS

September 30, 2010

	Planning, Zoning and Building Fund	Postal Center Fund	Bike Path and Pedestrian Way Fund	Radon Gas Fund	Totals	
					2010	2009
<b>ASSETS</b>						
Cash and investments	\$ -	\$ 514	\$ -	\$ -	\$ 514	\$ 495
Inventory	-	12,545	-	-	12,545	24,995
Due from other funds	22,566	-	5,000	37	27,603	97,980
Total assets	<u>\$ 22,566</u>	<u>\$ 13,059</u>	<u>\$ 5,000</u>	<u>\$ 37</u>	<u>\$ 40,662</u>	<u>\$ 123,470</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 2,121	\$ 1,220	\$ -	\$ -	\$ 3,341	\$ 2,338
Accrued expenditures	1,331	837	-	-	2,168	3,550
Due to other governments	-	-	-	37	37	8,358
Due to other funds	-	14,752	-	-	14,752	23,380
Total liabilities	<u>3,452</u>	<u>16,809</u>	<u>-</u>	<u>37</u>	<u>20,298</u>	<u>37,626</u>
Fund balances						
Unreserved	<u>19,114</u>	<u>(3,750)</u>	<u>5,000</u>	<u>-</u>	<u>20,364</u>	<u>85,844</u>
Total fund balances	<u>19,114</u>	<u>(3,750)</u>	<u>5,000</u>	<u>-</u>	<u>20,364</u>	<u>85,844</u>
Total liabilities and fund balances	<u>\$ 22,566</u>	<u>\$ 13,059</u>	<u>\$ 5,000</u>	<u>\$ 37</u>	<u>\$ 40,662</u>	<u>\$ 123,470</u>

Town of Indian River Shores, Florida

**NONMAJOR GOVERNMENTAL FUNDS  
COMPARATIVE COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

Year ended September 30, 2010

	Planning, Zoning and Building Fund	Postal Center Fund	Bike Path and Pedestrian Way Fund	Radon Gas Fund	Totals	
					2010	2009
<b>REVENUES</b>						
Post office fees	\$ -	\$ 261,090	\$ -	\$ -	\$ 261,090	\$ 294,030
Licenses and permits	219,405	-	-	-	219,405	260,823
Miscellaneous revenue	2,048	-	-	-	2,048	1,831
Impact fees	-	-	399	-	399	845
	<u>221,453</u>	<u>261,090</u>	<u>399</u>	<u>-</u>	<u>482,942</u>	<u>557,529</u>
<b>EXPENDITURES</b>						
Current						
General government	282,921	342,501	-	-	625,422	730,257
Capital outlay	-	-	-	-	-	9,246
	<u>282,921</u>	<u>342,501</u>	<u>-</u>	<u>-</u>	<u>625,422</u>	<u>739,503</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(61,468)	(81,411)	399	-	(142,480)	(181,974)
Other financing sources						
Transfers in	-	77,000	-	-	77,000	180,347
<b>Net change in fund balances</b>	<u>(61,468)</u>	<u>(4,411)</u>	<u>399</u>	<u>-</u>	<u>(65,480)</u>	<u>(1,627)</u>
Fund balances, beginning of year	80,582	661	4,601	-	85,844	87,330
Prior period adjustment	-	-	-	-	-	141
Fund balances, beginning of year - restated	<u>80,582</u>	<u>661</u>	<u>4,601</u>	<u>-</u>	<u>85,844</u>	<u>87,471</u>
Fund balances, end of year	<u>\$ 19,114</u>	<u>\$ (3,750)</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 20,364</u>	<u>\$ 85,844</u>

## **PENSION TRUST FUNDS**

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Trust funds are used to account for assets held by the Town as trustee or agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust, nonexpendable trust and pension trust funds. Nonexpendable trust and pension trust funds are accounted for essentially in the same manner as proprietary funds.

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**Pension Trust Funds** - These funds are used to account for assets held in trust by the Town for others. Pension trust funds are accounted for as a fiduciary funds since proper maintenance is critical.

Town of Indian River Shores, Florida

PENSION TRUST FUNDS  
COMPARATIVE STATEMENTS OF FIDUCIARY NET ASSETS

September 30,

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Investment in defined benefit plan	\$ 5,844,261	\$ 4,821,570
Investment in PSO share plan	439,493	290,058
Investment in defined contribution plan	364,118	298,792
Contribution receivable	34,454	-
Total assets	<u>\$ 6,682,326</u>	<u>\$ 5,410,420</u>
<b>NET ASSETS</b>		
Net assets held in trust for pension benefits	<u>\$ 6,682,326</u>	<u>\$ 5,410,420</u>
Total net assets	<u>\$ 6,682,326</u>	<u>\$ 5,410,420</u>

**Town of Indian River Shores, Florida**

**PENSION TRUST FUNDS  
COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS**

**Years ended September 30,**

	2010	2009
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 654,763	\$ 512,402
Employee	152,096	150,694
State	166,620	150,702
Total contributions	973,479	813,798
Investment gain:		
Net increase in fair value of investments	533,860	167,057
Total investment gain	533,860	167,057
Total additions	1,507,339	980,855
<b>DEDUCTIONS</b>		
Distributions	216,291	150,290
Administrative expenses	19,142	14,985
Total deductions	235,433	165,275
Change in net assets	1,271,906	815,580
Plan net assets at beginning of year	5,410,420	4,594,840
Plan net assets at end of year	\$ 6,682,326	\$ 5,410,420

**SUPPLEMENTAL INFORMATION**

Town of Indian River Shores

COMBINING STATEMENT OF PLAN ASSETS & CHANGES IN ASSETS

Fiscal year ended September 30, 2010

	DEFINED BENEFIT POLICE & FIRE	DEFINED BENEFIT GENERAL EMPLOYEES	STATE SHARE ACCOUNT	DEFINED CONTRIBUTION	TOTAL PENSION TRUST FUNDS
Beginning reconciled balance-Plan Net Assets September 30, 2009	\$ 4,555,912	\$ 265,658	\$ 290,058	\$ 298,792	\$ 5,410,420
Additions:					
FY 10 Employee contributions	144,838	7,258	-	-	152,096
FY 10 Employer contributions	575,942	42,621	-	36,200	654,763
State share plan contributions	-	-	166,620	-	166,620
Subtotal additions	720,780	49,879	166,620	36,200	973,479
FMPTF investment income	446,590	23,259	33,486	30,525	533,860
Net additions	1,167,370	73,138	200,106	66,725	1,507,339
Deductions:					
Actuary fees deducted	(4,000)	(350)	-	-	(4,350)
Administrative expenses & quarterly fees	(11,093)	(745)	(1,556)	(1,398)	(14,792)
Subtotal deductions	(15,093)	(1,095)	(1,556)	(1,398)	(19,142)
Distributions paid out	(153,235)	(48,395)	(14,661)	-	(216,291)
Ending reconciled balance-Plan net assets September 30, 2010	<u>\$ 5,554,954</u>	<u>\$ 289,306</u>	<u>\$ 473,947</u>	<u>\$ 364,119</u>	<u>\$ 6,682,326</u>



Town of Indian River Shores, Florida

SCHEDULE OF PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate in Mills</u>	<u>Amount Levied</u>	<u>Amount Collected (*)</u>	<u>Percent Collected</u>
2003	\$ 1,760,124,373	1.4370	\$ 2,529,299	\$ 2,421,295	96%
2004	\$ 1,952,206,948	1.4730	\$ 2,884,386	\$ 2,755,336	96%
2005	\$ 2,143,027,490	1.4730	\$ 3,156,679	\$ 3,037,211	96%
2006	\$ 2,300,778,517	1.4730	\$ 3,389,047	\$ 3,242,690	96%
2007	\$ 2,552,420,615	1.4730	\$ 3,759,716	\$ 3,637,258	97%
2008	\$ 2,532,506,193	1.3923	\$ 3,526,008	\$ 3,418,898	97%
2009	\$ 2,574,214,967	1.3923	\$ 3,584,079	\$ 3,468,008	97%
2010	\$ 2,507,818,924	1.3923	\$ 3,491,636	\$ 3,384,579	97%

\* Includes delinquent collections

See independent auditor's report.

**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**

The Honorable Members of the Town Council  
Town of Indian River Shores, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida (the "Town") as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Indian River 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 Indian River Shores, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Indian River 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Indian River 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 have reported to the management of the Town of Indian River Shores, Florida in the management letter dated January 4, 2011. We did not audit the Town of Indian River Shores' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town of Indian River Shores, Florida's management, Town Council, the Auditor General of the State of Florida, and other regulatory agencies of federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

January 4, 2011  
Melbourne, Florida

*Berman Hopkins Wright & Latham*  
*CPAs and Associates, LLP*

## MANAGEMENT LETTER

The Honorable Members of the Town Council  
Town of Indian River Shores, Florida

We have audited the financial statements of the Town of Indian River Shores, Florida, as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated January 4, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters dated January 4, 2011, which should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below under the heading Prior Year Management Recommendations - Repeated.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town of Indian River Shores complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we identified recommendations as listed under the heading Current Year Management Recommendations at 10-1.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Town of Indian River Shores was established by and is governed per the special law 54-1407 Laws of Florida. Additional legal entity disclosures are included in Note A-1 of the financial statements. The Town of Indian River Shores does not have any component units.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Indian River Shores, did *not* meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town of Indian River Shores for the fiscal year ended September 30, 2009, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Indian River Shores' financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

January 4, 2011  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## **Prior Year Management Recommendations - Corrected**

### 08-3 Controls Over Payroll Process

Criteria: Internal controls are necessary to help protect the Town from risk of errors or misappropriations.

Condition: During our walkthrough documentation procedure for the audit, it was noted that payroll is approved by the Town manager prior to the final payroll being processed. After this approval, the Town treasurer then has the ability to complete and process payroll. All checks are directly deposited into the employees' accounts. There is not a final approval to ensure that the original payroll amount approved by the Town manager was the same amount that was processed and deposited.

Status as of September 30, 2009:

Condition: During our walkthrough documentation procedure for the audit, it was noted that payroll is approved by the Town manager prior to the final payroll being processed. After this approval, the Town treasurer then has the ability to complete and process payroll. All checks are directly deposited into the employees' accounts. There is not a final approval to ensure that the original payroll amount approved by the Town manager was the same amount that was processed and deposited.

Effect: By not reconciling the original payroll to the final processed payroll there is an increased risk that errors or misappropriations could occur and go undetected.

Auditors' recommendation: We recommend that a member of management, separate from the Town treasurer, reconcile the original payroll, the one that the Town manager previously approved, to a copy of the final payroll that was disbursed.

As of September 30, 2010, this issue has been resolved.

### 09-2 Budget Amendments

Criteria: Section 166.241 of the Florida Statutes requires that the governing body of the Town adopt an annual budget. This budget should be amended if management believes expenses will exceed actual appropriations.

Condition: During the current year, actual expenditures exceeded final budgeted appropriations of the Road and Bridge Fund by \$23,983 and Planning and Zoning Fund by \$4,611.

Effect: The Town did not amend the budget to reflect additional expenditures incurred after the final amendment, thus the actual expenditures exceeded budgeted appropriations.

## **Prior Year Management Recommendations - Corrected**

### 09-2 Budget Amendments (continued)

Auditors' recommendation: It is our recommendation that the Town amend their budget to ensure that the actual expenditures do not exceed the budget. The Town has the ability to amend their budget within 60 days after the fiscal year end.

As of September 30, 2010, this issue has been resolved.

### 09-3 Perpetual Inventory

Criteria: Sound procedures for recording inventory involve maintaining perpetual inventory counts. Physical inventory counts should be performed periodically to substantiate the accuracy of the perpetual inventory.

Condition: During the physical inventory observation, it was noted that the Town does not maintain a perpetual inventory count for a large majority of the inventory held by the Postal Center. Inventory balances recorded in the financial statements are a direct reflection of the physical inventory counts.

Effect: Since a perpetual inventory is not maintained, we are unable to determine if the physical inventory count accurately reflects the amount of inventory the Town should have.

Auditors' recommendation: It is our recommendation that the Town account for inventory by maintaining a perpetual inventory count. This will provide management with better accounting control over the flow of goods and increase the possibility of detecting theft or error.

As of September 30, 2010, this issue has been resolved.

## **Prior Year Management Recommendations - Repeated**

### 09-1 Employee Manual

Criteria: An employee manual is used to communicate an organizations employment policies and procedures, which include potential employment benefits. This manual should be kept up to date to ensure accurate communication of information.

Condition: During the audit, it was noted that the Town's policy manual was outdated. The Town had instituted informal policies that were not updated or included in the employment manual.

Status as of September 30, 2010:

Effect: The accrued compensated absences were examined with out any findings in the current year. However, the Town is still working to update the employee manual with policies that are currently in use.

Auditors' recommendation: We recommend that the Town continue to work on updating the employee manual and perform periodic reviews for changes.



## Current Year Management Recommendations

### 10-1 Gas Tank Reconciliation Process

Criteria: The Town should have a policy over its onsite gasoline pumps.

Condition: During a walkthrough of the gas tank reconciliation process, it was noted that gasoline logs are maintained and used to help allocate expenses to the respective departments. However, there is no reconciliation or review process to determine the reasonableness of the amounts of fuel used based on the mileage to ensure there is no misuse or abuse.

Effect: Without proper controls over the gasoline pumps, the Town is leaving itself open for potential misuse or abuse.

Auditors' recommendation: It is our recommendations that the Town implement a reconciliation process for its onsite gasoline pump usage. The process should include reviewing the log to check for any potential misuse or abuse and then reconciling the amount of gas used per the log to the receipts/invoices containing the number of gallons used to refill the tanks.

MAYOR:  
E. WILLIAM KENYON

VICE MAYOR:  
WILLIAM H. AHRENS

COUNCIL:  
FRANCES F. ATCHISON  
MICHAEL B. OCHSNER  
GERARD A. WEICK

TOWN MANAGER:  
RICHARD F. JEFFERSON



## TOWN OF INDIAN RIVER SHORES

6001 N. HIGHWAY A-1-A, INDIAN RIVER SHORES, FLORIDA 32963

(772) 231-1771

FAX (772) 231-4348

### **Response to Recommendations Fiscal Year Ended September 30, 2010**

#### **09-1 Employee Manual**

The finance committee has empowered Town Staff to collectively work on updating the manual. Under the direction of the Town Manager, we are working on one section at a time, with input from employees as time allows. We will continue progress on the update in the coming year, with ultimate approval for the finished product by Town Council.

#### **10-1 Gas Tank Reconciliation Process**

Town management has, as of January 13, 2011, implemented a new process for recording data in the Fuel Log that will facilitate the weekly review of gas usage, per vehicle, to be reviewed by a Captain in Public Safety, or his designee. The Town Treasurer, or her designee, will tie the recorded gas usage, per Fuel Log, to the invoices received from the fuel provider on a test basis throughout the year, going forward.

Richard Jefferson, Town Manager

February 14, 2011