

**TOWN OF OCEAN RIDGE, FLORIDA**  
**FINANCIAL STATEMENTS WITH INDEPENDENT**  
**AUDITOR'S REPORT THEREON**  
**SEPTEMBER 30, 2011**

TOWN OF OCEAN RIDGE, FLORIDA  
SEPTEMBER 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Commission  
Town of Ocean Ridge, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Ocean Ridge, Florida as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Ocean Ridge, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 and each major fund of the Town of Ocean Ridge, Florida as of September 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2012 on our consideration of the Town of Ocean Ridge, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the budgetary comparison information on pages 40 and 41, and the Schedule of Funding Progress – Other Postemployment Benefits on page 42 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.

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

West Palm Beach, Florida  
May 24, 2012

TOWN OF OCEAN RIDGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011

Within this section of the Town of Ocean Ridge annual financial report, the Town's management provides a narrative discussion and analysis of the financial activities of the Town for the fiscal year ended September 30, 2011. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the Town's primary government.

### **FINANCIAL HIGHLIGHTS**

- § The Town's net assets increased as a result of this year's operations. The assets of the Town of Ocean Ridge exceeded its liabilities at the close of the most recent fiscal year by \$13,481,918 (net assets) compared to last year when assets exceeded liabilities by \$13,473,555. Net assets at the end of 2011 included \$3,498,676 in unrestricted net assets.
- § The government activities revenues were \$5,041,678 at the close of fiscal year 2011.
- § The Town's total expenses were \$5,033,315 during the fiscal year 2011.
- § Total expenditures were \$5,317,903 during fiscal year 2011, of which \$146,308 was approved for drainage improvements that were partially funded with monies transferred from the General Fund in FY 2009/10. Also, \$192,508 was expended for the remainder of the Island Drive Bridge Replacement, and \$50,193 was approved for partial payment of new software for the Police Department.
- § At the end of the 2011 fiscal year, the unassigned fund balance for the general fund was \$2,147,160 or 44% of total general fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

*Management's Discussion and Analysis (MD&A)* introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

#### ***Government-Wide Financial Statements***

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

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

base and the condition of the Town's infrastructure in order to assess the overall health of the Town.

***Fund Financial Statements***

Fund financial statements provide detailed information about the most significant funds, not the Town as a whole. The Town uses the funds to keep track of specific sources of funding and spending for a particular purpose. All of the town's funds are governmental funds.

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

§ The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

***Net Assets***

The Town's combined net assets for the fiscal year ending 2011 are \$13,481,918. This is an \$8,363 increase over last year's net assets of \$13,473,555.

**Summary of Net Assets  
Total Primary Government**

	<u>2010</u>	<u>2011</u>
Current Assets	\$ 4,710,175	\$ 4,446,722
Capital Assets	19,053,353	18,868,497
<b>Total Assets</b>	<u>\$ 23,763,528</u>	<u>\$ 23,315,219</u>
Current Liabilities	\$ 178,905	\$ 138,712
Non-current liabilities	10,111,068	9,694,589
<b>Total Liabilities</b>	<u>10,289,973</u>	<u>9,833,301</u>
Net Assets:		
Invested in capital assets, net of related debt	9,645,012	9,920,949
Restricted	61,106	62,293
Unrestricted	3,767,437	3,498,676
<b>Total Net Assets</b>	<u>13,473,555</u>	<u>13,481,918</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 23,763,528</u>	<u>\$ 23,315,219</u>

### *Changes in Net Assets*

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

The following is a summary of the town's changes in net assets for the year ended September 30:

#### **Summary of Changes in Net Assets**

	<u>2010</u>	<u>2011</u>
<b><u>Revenues:</u></b>		
Program Revenues:		
Charges for Services	\$ 533,204	\$ 715,641
Operating grants and contributions		41,434
Capital grants and contributions	13,036	46,042
General Revenues:		
Property Taxes	3,791,112	3,454,649
Other Taxes	563,656	558,934
Intergovernmental	162,338	183,415
Investment earnings	41,095	31,030
Other	19,804	10,533
<b>Total Revenues</b>	<u>5,124,245</u>	<u>5,041,678</u>
<b><u>Expenses:</u></b>		
General Government	992,494	1,037,881
Public Safety	2,758,771	2,724,150
Public Services	452,377	518,290
Public Works	470,623	437,168
Other	331,003	315,826
<b>Total Expenses</b>	<u>5,005,268</u>	<u>5,033,315</u>
Increase in net assets	118,977	8,363
Net Assets, beginning	<u>13,354,578</u>	<u>13,473,555</u>
Net Assets, ending	<u>\$ 13,473,555</u>	<u>\$ 13,481,918</u>

### ***General Fund Budgetary Highlights***

Actual expenditures during 2011 were \$397,740 less than budgeted expenditures and actual revenues were \$71,029 less than budgeted amounts, which led to a \$83,125 excess of revenues over expenditures. An additional \$15,875 in proceeds from the sale of capital assets resulted in an overall increased in the Fund Balance of \$99,000.

### ***Capital asset and debt administration***

#### Capital Assets

At the end of the fiscal year 2011, the Town had \$18,868,497 invested in a broad range of capital assets including police equipment, building, infrastructure and water improvements. Additional information about capital assets can be found in the Note 6 to the financial statements.

The following is a summary of capital assets as of September 30:

#### **Summary of Capital Assets Net of Accumulated Depreciation**

	<u>2010</u>	<u>2011</u>
Land	\$ 801,675	\$ 801,675
Construction in Progress	688,197	50,193
Buildings	5,331,435	5,312,403
Equipment	774,747	772,778
Infrastructure	16,031,664	17,052,690
	<u>23,627,718</u>	<u>23,989,739</u>
Less Accumulated Depreciation	4,574,365	5,121,242
<b>TOTALS</b>	<u><u>\$ 19,053,353</u></u>	<u><u>\$ 18,868,497</u></u>

#### Debt and Long-Term Liabilities

As of September 30, 2011 the Town had long-term liabilities of \$5,384,894 owed to the Florida Department of Environmental Protection as part of the State Revolving Loan, a federal program with state match, \$3,566,441 owed to Bank of America for a promissory note, \$42,040 in accrued interest on long-term debt, \$68,201 in compensated absences, and \$7,415 in other postemployment benefits.

The Town's long term liabilities are summarized in the following table and are more fully explained in Note 7 to the financial statements.

**Summary of Long-Term Liabilities**

	<b>2010</b>	<b>2011</b>
State Revolving Fund Loan	\$ 5,694,372	\$ 5,384,894
Bank of America Promissory Note	3,717,024	3,566,029
OPEB	3,062	7,415
Compensated Absences	72,880	68,201
	<b>\$9,487,883</b>	<b>\$ 9,026,539</b>

***Economic factors and next year's budgets and rates***

For the 2012 fiscal year, general fund revenue projections have been comparable to previous years.

- The budget is balanced by using reserves from the Fund Balance.
- The user fee rate increase proposed for the fiscal year 2012 includes increasing the Garbage/Trash Rate.
- The general fund millage rate remained the same at 5.25 mills with an overall \$270,171 reduction in the general fund expenses. The expenses still include funding for fire services, and the loan repayment costs for both the drainage improvements and new Town Hall/Police Facility. The Fund Balance Unassigned to balance the budget was approximately \$178,828 less than the prior year and did not include any fund transfers.
- The \$450,000 that was transferred to the Capital Projects Fund in 2007/08 for the Coconut Lane Drainage Improvements will be utilized this year with construction anticipated to begin in May 2012. A \$62,625 generator was purchased to replace the existing one at Turtle Beach which will be relocated to Coconut Lane. The Town has already been approved for a \$119,000 Grant to be applied towards this work.
- \$61,433 has been allocated from the Capital Projects Fund for the Inlet Cay and Sabal Island Drive Bridge repairs.
- The remaining \$50,000 for the purchase of the new software for the Police Department was utilized from the Capital Projects Fund.

***Contacting the Town's financial management***

This financial report is designed to provide our residents and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives and disburses. If you have any questions about this report or need additional information, please contact the Town of Ocean Ridge, 6450 North Ocean Blvd., Ocean Ridge FL 33435.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Statement of Net Assets**  
**September 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,975,148
Investments	1,506,806
Accounts receivable (net)	130,642
Prepays	84,711
Deferred charges	3,375
Restricted cash and cash equivalents	77,990
Deferred outflows from interest rate swap	668,050
Capital assets	
Non-depreciable	851,868
Depreciable (net of depreciation)	<u>18,016,629</u>
Total assets	<u><u>\$ 23,315,219</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 35,053
Accrued payroll	53,235
Accrued interest payable	26,073
Accrued interest payable from restricted assets	15,967
Deferred revenue	8,384
Non-current liabilities	
Interest rate swap	668,050
Due within one year	509,006
Due in more than one year	<u>8,517,533</u>
Total liabilities	<u>9,833,301</u>
Net assets	
Invested in capital assets, net of related debt	9,920,949
Restricted for debt service	62,293
Unrestricted	<u>3,498,676</u>
Total net assets	<u>13,481,918</u>
Total liabilities and net assets	<u><u>\$ 23,315,219</u></u>

See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2011**

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities						
General government	\$ 1,037,881	\$ 171,825	\$ 23,565	\$ 35,915	\$ (806,576)	
Public safety	2,724,150	277,307	17,869	10,127	(2,418,847)	
Public works	437,168				(437,168)	
Public services	518,290	266,509			(251,781)	
Interest on long term debt	315,826				(315,826)	
Total governmental activities	5,033,315	715,641	41,434	46,042	(4,230,198)	
General revenues						
Property taxes					3,454,649	
Utility service taxes					348,120	
Franchise taxes					162,832	
Gasoline taxes					47,982	
State shared revenues - unrestricted					144,025	
Local shared revenues - unrestricted					39,390	
Investment earnings					31,030	
Miscellaneous					10,533	
Total general revenues					4,238,561	
Change in net assets					8,363	
Net assets, beginning of year					13,473,555	
Net assets, end of year					\$ 13,481,918	

See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2011**

	General	Capital Projects	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,379,600	\$ 595,548	\$ 1,975,148
Investments	1,506,806		1,506,806
Accounts receivable (net)	130,642		130,642
Due from other funds		29,000	29,000
Prepaid items	84,711		84,711
Restricted cash and cash equivalents	77,990		77,990
Total assets	\$ 3,179,749	\$ 624,548	\$ 3,804,297
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 33,453	\$ 1,600	\$ 35,053
Accrued payroll	53,235		53,235
Due to other funds	29,000		29,000
Deferred revenue	47,659		47,659
Total liabilities	163,347	1,600	164,947
<b>Fund balances</b>			
<b>Non-Spendable:</b>			
Prepays	84,711		84,711
<b>Restricted for:</b>			
Debt service	77,990		77,990
<b>Assigned to:</b>			
Self insurance	160,000		160,000
Drainage	370,000		370,000
Beautification	115,000		115,000
Subsequent year budget	61,541		61,541
Capital projects		622,948	622,948
Unassigned	2,147,160		2,147,160
Total fund balances	3,016,402	622,948	3,639,350
Total liabilities and fund balances	\$ 3,179,749	\$ 624,548	\$ 3,804,297

See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Reconciliation of the Balance Sheet – Governmental Funds**  
**to the Statement of Net Assets**  
**September 30, 2011**

Fund balances total governmental funds		\$ 3,639,350
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 23,989,739	
Less accumulated depreciation	<u>(5,121,242)</u>	18,868,497
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		39,275
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of net assets.		
Deferred charges net of amortization	3,375	
Compensated absences	(68,201)	
Loans payable	(8,950,923)	
Other postemployment benefits	(7,415)	
Accrued interest on long-term debt	<u>(42,040)</u>	<u>(9,065,204)</u>
Net assets of governmental activities		<u>\$ 13,481,918</u>

See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Governmental Funds**  
**For the Fiscal Year Ended September 30, 2011**

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues			
Property taxes	\$ 3,454,649	\$	\$ 3,454,649
Utility service taxes	348,120		348,120
Gasoline taxes	47,982		47,982
Sales taxes	108,661		108,661
Local business tax	4,685		4,685
Electric franchise fee	162,832		162,832
State shared revenues	35,364		35,364
Local shared revenues	39,390		39,390
Licenses and permits	207,621		207,621
Grants	6,915		6,915
Fines and forfeitures	37,129		37,129
Charges for services	516,064		516,064
Interest	29,509	1,521	31,030
Contributions	2,565	29,000	31,565
Miscellaneous	10,533		10,533
Total revenues	<u>5,012,019</u>	<u>30,521</u>	<u>5,042,540</u>
Expenditures			
Current			
General government	723,677		723,677
Public safety	2,665,934		2,665,934
Public works	169,410		169,410
Public services	518,290		518,290
Debt service			
Principal	461,018		461,018
Interest	317,997		317,997
Capital outlay	72,568	389,009	461,577
Total expenditures	<u>4,928,894</u>	<u>389,009</u>	<u>5,317,903</u>
Excess (deficiency) of revenues over expenditures	<u>83,125</u>	<u>(358,488)</u>	<u>(275,363)</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	15,875		15,875
Total other financing sources (uses)	<u>15,875</u>		<u>15,875</u>
Net change in fund balances	99,000	(358,488)	(259,488)
Fund balances, beginning of year	<u>2,917,402</u>	<u>981,436</u>	<u>3,898,838</u>
Fund balances, end of year	<u>\$ 3,016,402</u>	<u>\$ 622,948</u>	<u>\$ 3,639,350</u>

See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of the Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended September 30, 2011**

Net change in fund balances - total governmental funds \$ (259,488)

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

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

Expenditures for capital assets	475,420	
Less: current year depreciation	<u>(654,072)</u>	(178,652)

Capital assets donated to the Town		9,721
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of loan issuance costs	(225)	
Principal payments on debt	<u>461,018</u>	460,793

Gains and losses on the disposal of fixed assets are not reported in the governmental funds but are reported in the statement of activities

Net book value of fixed asset disposals		(15,925)
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Governmental funds report revenues when earned and available. However, in the Statement of Activities, revenues are recognized when earned, regardless of availability

Change in deferred revenue		(10,583)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in accrued interest payable	2,171	
Decrease in compensated absences payable	4,679	
Increase in other postemployment benefits	<u>(4,353)</u>	<u>2,497</u>

Change in net assets		<u>\$ 8,363</u>
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See notes to the financial statements

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

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

*Reporting Entity*

The Town of Ocean Ridge, Florida is a municipal corporation organized pursuant to Chapter 15088, 1931 Laws of Florida. The Town operates under a Commission form of government. The Town's major operations include law enforcement and fire control, protective inspections, sanitation, environmental, public works, civil defense, and general and administrative services.

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

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

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Government-wide and Fund Financial Statements*

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

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

Fund financial statements are provided for governmental funds. The Town has no fund types other than governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

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

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Governmental Funds*

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

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

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 needed.

The Town reports the following major governmental funds:

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.

The Capital Projects Fund accounts for the financial resources for the acquisition or construction of major capital facilities.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Cash and Cash Equivalents*

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

*Investments*

Investments consist of time deposits. All investments are reported at fair value based on quoted market prices.

*Accounts Receivable*

Accounts receivable of the General Fund consists of billed and unbilled receivables. The Town has not established an allowance for doubtful accounts because the Town considers all receivables to be collectible.

*Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital Assets*

Capital assets, which include plant, property, equipment, and infrastructure assets (i.e., roads, bridges, and sidewalks), are reported in the government-wide financial statements. Such assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34 and has elected not to report major general infrastructure assets retroactively. Depreciation has been provided over the useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	30 years
Roadways	30 years
Water distribution and drainage systems	40 years
Police and fire equipment	7 - 10 years
Furniture and other equipment	3 - 7 years

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Compensated Absences*

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. All vacation and sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Town employees may accumulate up to 10 days of vacation leave and 20 days of sick leave. Employees hired prior to May 7, 1991 shall not be subject to the 20 days of sick leave maximum. Accumulated vacation is payable to employees upon termination or retirement at the rate of pay on that date. Sick leave can be used for paid time off or paid to employees upon termination or retirement for one-fourth of the days of unused sick leave at the rate of pay on that date. Compensated absences are liquidated in the General Fund.

*Interest Rate Swaps*

The Town enters into interest rate swap agreements to modify interest rates on outstanding debt.

*Interest Cost*

Interest costs in governmental funds are charged to expenditures as incurred. Construction period interest incurred in governmental funds is not capitalized.

*Deferred Revenues*

The government reports deferred revenue on its government wide statement of net assets and governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Encumbrances*

Encumbrance accounting is used for purposes of budgetary control and contract compliance. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to earmark that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Because appropriations expire at year end, the Town's policy is to automatically add encumbered amounts at year end to the subsequent year budget.

*Fund Balances*

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

1. Nonspendable fund balances – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
2. Restricted fund balance – Includes amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed fund balance – Includes amounts that can be used only for specific purposes pursuant to constraints imposed by an ordinance, the Town's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action employed to previously commit those amounts.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Fund Balances* (Continued)

4. Assigned fund balance – Includes amounts intended to be used by the Town for specific purposes, but are neither restricted nor committed. Intent shall be expressed by the Town Commission or may be delegated to the Town Manager.
5. Unassigned fund balance – Includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

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

*Net Assets*

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

*Interfund Transactions*

Transactions between funds consist of loans, services provided, reimbursements, or transfers. Loans are reported as Due From Other Funds and Due to Other Funds as appropriate and are subject to elimination in the government-wide financial statements. Services deemed to be reasonably equivalent in value are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost. All other interfund transactions are presented as transfers.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Budgetary Data*

Formal budgetary integration is employed as a management control device during the year for the General Fund and the Capital Projects Fund. All budgets are legally enacted. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by appropriate action.

*Property Taxes*

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

The tax levy of the Town is established by the Town Commission prior to October 1 of each year, and the Palm Beach County Property Appraiser incorporates the Town's millages into the total tax levy, which includes Palm Beach County and Palm Beach County School Board tax requirements. The millage rate assessed by the Town for the year ended September 30, 2011 was 5.2500 (\$5.2500 for each \$1,000 of assessed valuation).

All property is reassessed according to its fair market value January 1 of each year, which is also the lien date. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all the appropriate requirements of state statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All unpaid taxes become delinquent on April 1 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. The taxes paid in March are without discount.

Delinquent taxes on real property bear interest of 18% per year. On or prior, to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After the sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Use of Estimates*

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventory, and useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

**NOTE 2 – BUDGETARY INFORMATION**

*Budget Policy and Practice*

The Town Manager submits an annual budget to the Town Commission in accordance with the Town Charter and the Florida Budget Act. The budget is presented to the Town Commission for review, and public hearings are held to address priorities and the allocation of resources. In September, the Town Commission adopts the annual fiscal year appropriated budgets for the Town funds. Once approved, the Town Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

*Basis of Budgeting*

The General Fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department, which constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the Town Commission. Within these control levels, the Town Manager may transfer appropriations between line items.

The budget for the General Fund is prepared on the basis of generally accepted accounting principles in the United States of America. The budget and actual financial statements are also reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

*Deposits*

Deposits are either covered by insurance provided by the Federal Depository Insurance Corporation or are held in banking institutions approved by the Treasurer of the State of Florida. Under Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or other banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes. As of September 30, 2011, the bank balance of the Town's deposits was \$3,610,483 and the carrying amount was \$3,559,794, which includes certificates of deposit of \$1,506,806 reported as investments. The Town also had \$150 in petty cash for a total carrying amount of \$3,559,944.

*Investments*

The Town has not adopted a written investment policy. Florida Statutes authorize units of local government electing not to adopt a written investment policy to invest in the following instruments:

- a. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories
- d. Direct obligations of the U.S. Treasury.
- e. Deposits that meet the following conditions (CDARS<sup>®</sup>):
  - The funds are initially deposited in a qualified public depository.
  - The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or saving and loan associations, wherever located, for the account of the unit of local government.
  - The full amount of the principal and accrued interest of each financial deposit instrument is insured by the FDIC.
  - The selected depository acts as custodian for the unit of local government with respect to each financial deposit instrument issued for its account.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

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

*Investments* (Continued)

As of September 30, 2011, the Town held the following certificates of deposit that are reported as investments in the balance sheet and statement of net assets:

	<u>Maturity</u>	<u>Fair Value</u>
Certificate of Deposit	5 days	\$ 100,000
Certificate of Deposit	124 days	302,135
Certificate of Deposit	146 days	600,000
Certificate of Deposit	334 days	303,374
Certificate of Deposit	365 days	<u>201,297</u>
		<u>\$1,506,806</u>

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Town's investment policies limit its investments to high quality investments to control credit risk.

Interest Rate Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2011, all the Town's investments were insured or collateralized.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 4 - RECEIVABLES**

Receivables as of September 30, 2011, for the Town's major funds are as follows:

	General Fund
Taxes receivable	\$ 49,162
Due from other governments	45,290
Grants receivable	27,915
Accounts receivable - billed	7,816
Other	459
 Total receivables	 130,642
 Less allowance for uncollectible accounts	 _____
 Net receivables	 \$130,642

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivable and payable balances at September 30, 2011 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$29,000

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 6 - CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 801,675	\$	\$	\$ 801,675
Construction in progress	688,197	242,701	(880,705)	50,193
Capital assets being depreciated:				
Buildings	5,331,435		(19,032)	5,312,403
Infrastructure	16,031,664	1,038,789	(17,763)	17,052,690
Equipment	<u>774,747</u>	<u>84,356</u>	<u>(86,325)</u>	<u>772,778</u>
<b>Total at historical cost</b>	<b><u>\$23,627,718</u></b>	<b><u>\$ 1,365,846</u></b>	<b><u>\$(1,003,825)</u></b>	<b><u>\$23,989,739</u></b>
Less accumulated depreciation for:				
Buildings	\$ (493,001)	\$ (162,474)	\$ 19,032	\$ (636,443)
Infrastructure	(3,563,444)	(409,625)	5,448	(3,967,621)
Equipment	<u>(517,920)</u>	<u>(81,973)</u>	<u>82,715</u>	<u>(517,920)</u>
<b>Total accumulated depreciation</b>	<b><u>\$ (4,574,365)</u></b>	<b><u>\$ (654,072)</u></b>	<b><u>\$ 107,195</u></b>	<b><u>\$(5,121,242)</u></b>
<b>Governmental activities capital assets, net</b>	<b><u>\$19,053,353</u></b>	<b><u>\$ 711,774</u></b>	<b><u>\$(896,630)</u></b>	<b><u>\$18,868,497</u></b>

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

<b>Governmental activities:</b>	
General government	\$331,706
Public safety	55,528
Public works	<u>266,838</u>
<b>Total depreciation expense for governmental activities</b>	<b><u>\$654,072</u></b>

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 7 - LONG-TERM LIABILITIES**

*State Revolving Loan Fund*

The State Revolving Loan Fund was initially obtained by the Town in 2002 in the amount of \$439,398 for planning and design for major drainage improvements. The loan was amended in 2004 to include an additional \$3,988,000 for construction, amended again in 2005 for additional construction funds of \$1,679,076 and amended again in 2006 for additional construction funds of \$900,343. The loan is payable from and secured by the Local Government Half-cent Sales Tax revenue, Florida Power and Light Franchise Tax revenue, Communications Service Tax revenue, and Utility Service Tax revenues received yearly. Principal and interest paid for the current fiscal year was \$467,944 and total pledged revenues were \$619,613. At September 30, 2011, principal and interest to maturity in 2025 to be paid from pledged future revenues totaled \$6,551,212. As of September 30, 2011, outstanding principal, including capitalized interest, was \$5,384,894. The loan bears interest of approximately 3%.

Estimated annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2011 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 318,782	\$ 149,162	\$ 467,944
2013	327,807	140,137	467,944
2014	337,088	130,856	467,944
2015	346,631	121,313	467,944
2016	356,444	111,500	467,944
2017-2021	1,939,426	400,292	2,339,718
2022-2025	<u>1,758,716</u>	<u>113,058</u>	<u>1,871,774</u>
	<u>\$ 5,384,894</u>	<u>\$1,166,318</u>	<u>\$6,551,212</u>

*Bank of America Town Hall Promissory Note*

The \$4,000,000 Bank of America Promissory Note was obtained in August 2007 for the purpose of constructing a new town hall. Interest only is due for the first twelve months in quarterly payments beginning November, 2007. Thereafter, interest and principal are due in quarterly payments through August 2027. The interest rate will be a variable rate calculated at the beginning of each month equal to the sum of 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%. As of September 30, 2011, the interest rate was 0.95252%.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 7 - LONG-TERM LIABILITIES** (Continued)

*Interest Rate Swap*

**Terms and Objectives:** In an effort to lower its borrowing costs when compared against fixed rate loans at the time of issuance, the Town issued the \$4,000,000 variable rate Bank of America Promissory Note and entered into a corresponding pay fixed rate swap agreement. The objective of the swap is to change the Town's variable rate loan into a synthetic fixed rate instrument. Based on the swap agreement, the Town pays a fixed rate of 4.315% to the counterparty of the swap, based on the notational amount. In return, the counterparty pays interest based on an applicable rate that is equal to 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%. The loan principal is not exchanged; it is only the basis on which the interest payments are calculated. The effective date of the swap was September 1, 2007 and the termination date is August 1, 2027. The notational amount of the swap is the same as the principal amount of the loan. The notational amount was \$4,000,000 at the effective date of the swap and \$3,566,029 as of September 30, 2011.

The interest rate swap is a derivative instrument as defined in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The primary objective of this derivative is to function as a hedging instrument. The interest rate swap is classified as a discrete cash flow hedge. As a derivative instrument associated with a hedgeable item, this interest rate swap is effective by significantly reducing an identified financial risk by substantially offsetting changes in the cash flows of the Bank of America Promissory Note. The Town used the synthetic instrument method to evaluate hedge effectiveness for the swap.

**Basis Risk:** The Town is not exposed to basis risk because the variable payment received from the counterparty is determined on the same basis as that used to calculate the promissory note variable rate. The promissory note and counterparty interest rates are both equal to 63.7% of the USD-LIBOR-BBA one month rate plus 0.80%.

**Fair Value:** As of September 30, 2011, the swap had a negative fair value of \$668,050 because interest rates have declined since the execution of the swap. The fair value decreased \$44,865 during the fiscal year ended September 30, 2011 from a negative fair value of \$623,185 at September 30, 2010. The fair values are estimated using a proprietary valuation model developed by the counterparty. This valuation method estimates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

**Credit Risk:** As of September 30, 2011, the Town was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Town would be exposed to credit risk in the amount of the derivative's fair value. As of March 31, 2012, Bank of America, N.A., the swap's counterparty, was rated BBB by Fitch Ratings, A- by Standard & Poor's, and A3 by Moody's Investors Service.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 7 - LONG-TERM LIABILITIES** (Continued)

*Interest Rate Swap* (Continued)

**Termination Risk:** The Town's derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Town or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the swap has a negative fair value, the Town would be liable to the counterparty for a payment equal to the swap's fair value.

**Rollover Risk:** The Town is not exposed to rollover risk because the maturity date for the hedged Bank of America Promissory Note is the same as the termination date for the interest rate swap.

**Foreign Currency Risk:** The Town is not exposed to foreign currency risk on the interest rate swap.

**Swap Payments and Associated Debt:** The interest rate swap agreement does not affect the Town's obligation to repay the principal and variable rate interest on the Bank of America Promissory Note under the terms of the loan agreement. The following table presents debt service payments on the variable rate loan, net of associated swap payments. The calculations are based on the assumption that the rates as of September 30, 2011 remain constant over the life of the loan.

Year Ending September 30	Principal	Variable Rate Interest	Interest Rate Swaps, Net	Net Cash Flows
2012	\$ 157,287	\$33,969	\$ 119,915	\$ 311,171
2013	164,705	32,332	114,134	311,171
2014	172,030	30,715	108,426	311,171
2015	179,680	29,026	102,465	311,171
2016	187,332	27,337	96,502	311,171
2017-2021	1,070,889	107,055	377,912	1,555,856
2022-2026	1,331,275	49,575	175,006	1,555,856
2027	302,831	1,841	6,499	311,171
Totals	<u>\$ 3,566,029</u>	<u>\$311,850</u>	<u>\$ 1,100,859</u>	<u>\$ 4,978,738</u>

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 7 - LONG-TERM LIABILITIES** (Continued)

*Interest Expense*

Total interest costs incurred and paid on all Town debt for the year ended September 30, 2011 was \$315,810 and \$318,409, respectively.

During the year ended September 30, 2011, the following changes occurred in long-term liabilities:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental activities:</b>					
Revolving Loan Fund	\$5,694,917	\$	\$(310,023)	\$5,384,894	\$318,782
Bank of America Loan	3,717,024		(150,995)	3,566,029	157,287
OPEB	3,062	4,353		7,415	
Compensated absences	<u>72,880</u>	<u>27,656</u>	<u>(32,335)</u>	<u>68,201</u>	<u>32,937</u>
Total governmental activities	<u>\$9,487,883</u>	<u>\$ 32,009</u>	<u>\$(493,353)</u>	<u>\$9,026,539</u>	<u>\$509,006</u>

**NOTE 8 - DEFERRED COMPENSATION PLAN**

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, 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.

Assets of the plan are invested in either mutual funds or insurance contracts. In 1998, the Plan was amended to conform to changes in the Internal Revenue Code brought about by the Small Business Job Protection Act of 1996 (the "Act"). The Act requires that eligible deferred compensation plans established and maintained by governmental employers be amended to provide that all assets of the plan be held in trust, or under one or more appropriate annuity contracts or custodial accounts, for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, plan assets are no longer subject to the claims of the Town's general creditors.

Because the Town has little administrative involvement and does not perform the investing function for funds in the Plan, the Town's activities do not meet the criteria for inclusion in the fiduciary funds of a government.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 9 - FLORIDA RETIREMENT SYSTEM**

*Florida Retirement System*

All full-time employees participate in the Florida Retirement System (FRS). The Florida Retirement System includes the Florida Retirement System Pension Plan, the Retiree Health Insurance Subsidy Program, and the Florida Retirement System Investment Plan.

*Florida Retirement System Pension Plan - Defined Benefit*

Plan Description

The Florida Retirement System Pension Plan is a cost sharing, multiple-employer, public retirement system controlled by the State Legislature and administered by the State of Florida Department of Administration, Division of Retirement. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. A post-employment health insurance subsidy is also provided to eligible employees through the Retiree Health Insurance Subsidy Program. Benefits are established by Chapter 121, Florida Statutes, and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by an act of the Florida Legislature.

The 2011 Florida Legislature made significant changes to the Florida Retirement System. Effective July 1, 2011, members of the Florida Retirement System are required to make 3 percent pre-tax employee contributions. Florida Retirement System Pension Plan members with an effective retirement date on or after August 1, 2011, and service credit earned on or after July 1, 2011, will have an individual post-retirement cost-of-living adjustment calculated as a reduction from 3 percent using only the proportion of their years of service before July 1, 2011, to their total years of service. Members initially enrolled on or after July 1, 2011, have:

- Vesting for benefits after eight years of service instead of six years.
- Retirement benefits calculated using the average of their highest eight years of salary instead of their highest five years.
- Normal retirement based on 35 years of service regardless of age or at age 65 and vested for all classes except Special Risk Class members who must have 30 years of service regardless of age or at age 60 and vested.
- No post-retirement cost-of-living adjustment.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 9 - FLORIDA RETIREMENT SYSTEM** (Continued)

***Florida Retirement System Pension Plan – Defined Benefit*** (Continued)

Funding Policy

Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS. Participating employers are required to make contributions based upon statewide contribution rates. Effective July 1, 2011, the contribution rates were amended by the Florida Legislature and for the first time included an employee contribution. The contribution rates vary by job class. The contribution rates by job class for the Town’s employees for the fiscal year ended September 30, 2011, are as follows:

Class	10/01/10 through 06/30/11	07/01/11 through 09/30/11
Regular Class	10.77%	7.91%
Senior Management Service Class	14.57%	9.273%
Special Risk Class	23.25%	17.10%

The above rates include 1.11% for the Retiree Health Insurance Subsidy Program, a 0.03% administrative fee, and beginning July 1, 2011, a 3.00% employee contribution.

The Town’s contributions to the Florida Retirement System Pension Plan for the fiscal years ending September 30, 2009 through 2011 were \$168,934, \$155,013, and \$147,476, respectively, which were equal to 100% of the required contributions for each fiscal year. The fiscal year 2011 contributions include \$140,311 of employer contributions and \$7,165 of employee contributions.

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the Florida Retirement System Pension Plan. The report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000; or e-mailing Research & Education at [rep@dms.MyFlorida.com](mailto:rep@dms.MyFlorida.com), or calling toll free at 877-377-1737.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 9 - FLORIDA RETIREMENT SYSTEM** (Continued)

***Retiree Health Insurance Subsidy Program***

*Plan Description*

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

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

*Funding Policy*

The State's current funding policy for the HIS is pay-as-you-go and provides for monthly employer contributions currently set as the legislatively determined rate of 1.11% of annual covered payroll. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. The GASB annual required contribution (ARC) calculated by the consulting actuary in the July 1, 2010 actuarial valuation for the fiscal year ending June 30, 2010 is 1.28% of active payroll (including DROP payroll).

The State's funding policy requires a contribution rate that is different than the GASB required ARC, which is an accounting disclosure. To the extent the contribution rate required to fund the HIS Program is different than the computed ARC, adjustments in the Net Pension Obligation (NPO) will occur from year to year.

The Town's contributions to the Retiree Health Insurance Subsidy Program for the fiscal years ending September 30, 2009 through 2011 were \$16,822, \$16,407 and \$15,661 respectively, which were equal to 100% of the required contributions for each fiscal year.

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Health Insurance Subsidy Program. The report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000; or e-mailing Research & Education at [rep@dms.MyFlorida.com](mailto:rep@dms.MyFlorida.com), or calling toll free at 877-377-1737.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 9 - FLORIDA RETIREMENT SYSTEM** (Continued)

*Florida Retirement System Investment Plan – Defined Contribution*

Plan Description

The Florida Retirement System Investment Plan is a defined contribution retirement plan qualified under Section 401(a) of the Internal Revenue Code. The Florida Legislature enacted the Plan during the 2000 legislative session, and amendments to the Plan can only be made by an act of the Florida Legislature. The Plan is administered by the State Board of Administration of Florida.

Funding Policy.

Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS. Participating employers are required to make contributions based upon statewide contribution rates. Effective July 1, 2011, the contribution rates were amended by the Florida Legislature and for the first time included an employee contribution. The contribution rates vary by job class. The contribution rates by job class for the Town’s employees for the fiscal year ended September 30, 2011, are as follows:

Class	10/01/10 through 06/30/11	07/01/11 through 09/30/11
Regular Class	10.77%	7.91%
Senior Management Service Class	14.57%	9.273%
Special Risk Class	23.25%	17.10%

The above rates include 1.11% for the Retiree Health Insurance Subsidy Program, a 0.03% administrative fee, and beginning July 1, 2011, a 3.00% employee contribution.

The Town’s total payroll for the year ended September 30, 2011 was \$1,538,442 and payroll for employees covered by the Plan was \$435,707. The Town and the covered employees made the required contributions of \$480,385 and \$3,566, respectively.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 10 - INTERLOCAL AGREEMENTS**

*Interlocal Fire and EMS Service Agreement with the City of Boynton Beach*

On May 4, 2004, the Town entered into an agreement with the City of Boynton Beach whereby the City of Boynton Beach will provide the Town with fire rescue and emergency medical services. The term of the agreement was for 12 years beginning on October 1, 2004, and extending through September 30, 2016. The annual service fee the Town paid under the agreement was \$836,827 in the current fiscal year. The annual service fees for future years will be the current year fee adjusted annually based on the “All Urban Customers – United States May Consumer Price Index” or an increase of 4%, whichever is greater.

**NOTE 11 - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town is also covered by Florida Statutes under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of municipalities to individual claims of \$100,000/\$200,000 for all claims relating to the same accident. There were no changes in insurance coverage from the prior year. There were no settled claims which exceeded insurance coverage during the past three fiscal years.

**NOTE 12 – COMMITMENTS**

*Inspection Services*

On August 1, 2009, the Town entered into an agreement with HY-Byrd Incorporated to perform the services of building official. The agreement is for a three year term and expires on August 1, 2012. However, the agreement may be terminated by either party with thirty days written notice. Under the terms of the agreement, the Town pays Hy-Byrd a specified fee for plan review and building inspection services. Other standard building official services are paid based on an hourly rate. The Town is invoiced monthly for services performed. For the year ended September 30, 2011, the Town incurred costs of \$116,538 for inspection services pursuant to the agreement

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 12 – COMMITMENTS** (Continued)

*Solid Waste and Recycling Collection Services*

Effective October 1, 2009, the Town entered into an agreement with Republic Services of Florida, Limited Partnership for solid waste and recycling collection services. The agreement is for a five year term ending September 30, 2014. The agreement provides for an option to negotiate an additional five year term. The option is not automatic, but may be exercised by Republic giving notice of its request to the Town no later than ninety days prior to the end of the first term. Under the terms of the agreement, the Town pays an established rate per month per unit picked up curbside or containerized. Republic bills the Town monthly for services provided. For the year ended September 30, 2011, the Town made payments of \$213,621 pursuant to the agreement.

On July 12, 2010, the agreement was amended to include debris management support services for storm debris in the event of a natural disaster. Under the terms of the agreement, Republic will collect construction and vegetative debris curbside resulting from a natural disaster impacting the Town and any other areas agreed to by both parties. Republic will be the exclusive provider for collection of disaster debris resulting from a natural disaster impacting the Town.

*Encumbrances*

At September 30, 2011, the Town had encumbrances of \$33,565 in the General Fund.

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS**

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

*Plan Description*

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

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS** (Continued)

*Funding Policy*

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

*Annual OPEB Cost and Net OPEB Obligation*

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

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

Required contribution rate - employer	Pay-as-you-go
Required contribution rate - plan members	N/A
Annual required contribution	\$ 6,678
Interest on net OPEB obligation	138
Adjustment to annual required contribution	<u>(183)</u>
Annual OPEB cost	6,633
Estimated net contributions made	<u>(2,280)</u>
Increase in net OPEB obligation	4,353
Net OPEB obligation October 1, 2010	<u>3,062</u>
Net OPEB obligation September 30, 2011	<u>\$ 7,415</u>

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS** (Continued)

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/09	N/A	N/A	N/A
09/30/10	\$6,307	51.5%	\$3,062
09/30/11	\$6,633	34.4%	\$7,415

Funded Status

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

Actuarial valuation date	October 1, 2009
Actuarial accrued liability	\$ 29,461
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 29,461
Funded ratio	0.0%
Covered payroll	\$1,515,282
UAAL as a percentage of covered payroll	1.9%

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only one year is presented in the schedule at this time. The Town is required to have an actuarial valuation every three years. The next valuation is scheduled for October 1, 2012. In future years, required trend data will be presented.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2011**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS** (Continued)

*Actuarial Methods and Assumptions*

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

Actuarial valuation date	October 1, 2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Amortization period	30 year closed period
Asset valuation method	Unfunded
Actual assumptions:	
Discount rate	4.5%
Healthcare cost trend	7% for 2010 decreasing to 5.0% in 2012

**NOTE 14 – ACCOUNTING CHANGE**

Governmental Accounting Standards Board Statement 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definition*, enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Town implemented this new standard during the fiscal year ended September 30, 2011. Changes to fund balance reporting of governmental funds are reflected in the financial statements and schedules. Related disclosures are presented in Note 1.

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Required Supplementary Information (RSI)**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2011**

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 3,473,248	\$ 3,473,248	\$ 3,454,649	\$ (18,599)
Utility service taxes	331,000	331,000	348,120	17,120
Gasoline taxes	49,900	49,900	47,982	(1,918)
Sales taxes	111,300	111,300	108,661	(2,639)
Local business tax	3,500	3,500	4,685	1,185
Electric franchise fee	185,000	185,000	162,832	(22,168)
State shared revenues	35,650	35,650	35,364	(286)
Local shared revenues	38,000	38,000	39,390	1,390
Licenses and permits	132,150	132,150	207,621	75,471
Fines and forfeitures	20,300	20,300	37,129	16,829
Charges for services	514,200	514,200	516,064	1,864
Interest	52,500	52,500	29,509	(22,991)
Grants	120,000	120,000	6,915	(113,085)
Contributions	3,000	3,000	2,565	(435)
Miscellaneous	13,300	13,300	10,533	(2,767)
Total revenues	<u>5,083,048</u>	<u>5,083,048</u>	<u>5,012,019</u>	<u>(71,029)</u>
<b>Expenditures</b>				
Town commission	19,622	19,622	18,892	730
Town manager	143,269	143,269	138,602	4,667
Town clerk/finance	284,683	293,183	269,155	24,028
Legal	102,000	111,500	111,123	377
Appointed boards	6,700	6,700	2,884	3,816
General government	1,014,780	1,014,975	938,316	76,659
Public safety	2,946,153	2,916,188	2,729,932	186,256
Building and zoning	96,500	118,080	117,726	354
Solid waste	217,000	217,000	213,621	3,379
Environmental	190,800	190,800	186,943	3,857
Public works	230,345	230,345	170,135	60,210
Contingency	50,000	64,972	31,565	33,407
Total expenditures	<u>5,301,852</u>	<u>5,326,634</u>	<u>4,928,894</u>	<u>397,740</u>
Excess (deficiency) of revenues over (under) expenditures	(218,804)	(243,586)	83,125	326,711
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	12,000	12,000	15,875	3,875
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>15,875</u>	<u>3,875</u>
Net change in fund balances	<u>\$ (206,804)</u>	<u>\$ (231,586)</u>	99,000	<u>\$ 330,586</u>
Fund balance, beginning of year			<u>2,917,402</u>	
Fund balance, end of year			<u>\$ 3,016,402</u>	

**TOWN OF OCEAN RIDGE, FLORIDA**  
**Notes to the Budgetary**  
**Required Supplementary Information (RSI)**  
**General Fund**  
**September 30, 2011**

**Note 1 - Basis of Accounting**

A budgetary comparison schedule is presented for the General Fund, as required by generally accepted accounting principles. The budgetary process is described in Note 2 to the financial statements on page 21. Budgets are adopted on a basis consistent with generally accepted accounting principles.

**Note 2 - Stewardship, Compliance, and Accountability**

Formal budgetary integration is employed within the accounting system as a management control device. Appropriations are legally controlled at the departmental level, and expenditures may not legally exceed budgeted appropriations at that level. For the year ended September 30, 2011, there were no departments that had an excess of expenditures over appropriations.

**TOWN OF OCEAN RIDGE**  
**Required Supplementary Information (RSI)**  
**Schedule of Funding Progress**  
**Other Postemployment Benefits**  
**For the Fiscal Year Year Ended September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age(1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2009	\$	\$ 29,461	\$ 29,461	0.0%	\$ 1,515,282	1.9%

The schedule of funding progress presented above will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Town implemented GASB 45 during the fiscal year ended September 30, 2010, and elected to apply the statement prospectively. Consequently there are no disclosures for prior years. The Town is required to have an actuarial valuation every three years. The next valuation is scheduled for October 1, 2012. In future years, required trend data will be presented.



# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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KARA D. PETERSON, CPA

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

BELLE GLADE OFFICE  
333 S.E. 2nd STREET  
POST OFFICE BOX 338  
BELLE GLADE, FLORIDA 33430-0338  
TELEPHONE (561) 996-5612  
FAX (561) 996-6248

The Honorable Mayor and Members of the Town Commission  
Town of Ocean Ridge, Florida

We have audited the financial statements of the governmental activities and each major fund of the Town of Ocean Ridge, Florida, as of and for the year ended September 30, 2011, which collectively comprise the Town of Ocean Ridge, Florida's basic financial statements and have issued our report thereon dated May 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United State 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 Ocean Ridge, 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 Ocean Ridge, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Ocean Ridge, Florida's internal control over financial reporting.

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

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

#### Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Town of Ocean Ridge, Florida in the accompanying Management Letter dated May 24, 2012.

This report is intended solely for the information and use of the Town of Ocean Ridge, Florida's management, members of the Town Commission, others within the entity, federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

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

West Palm Beach, Florida  
May 24, 2012



# NOWLEN, HOLT & MINER, P.A.

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KARA D. PETERSON, CPA

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

The Honorable Mayor and Members of the Town Council  
Town of Ocean Ridge, Florida

BELLE GLADE OFFICE  
333 S.E. 2nd STREET  
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BELLE GLADE, FLORIDA 33430-0338  
TELEPHONE (561) 996-5612  
FAX (561) 996-6248

We have audited the financial statements of the Town of Ocean Ridge, Florida, as of and for the year ended September 30, 2011, and have issued our report thereon dated May 24, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 24, 2012, should be considered in conjunction with this Management Letter.

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

### **PRIOR YEAR COMMENTS**

Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the prior year that required corrective actions.

## **CURRENT YEAR COMMENTS**

### *Investment of Public Funds*

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

### *Current Year Recommendations*

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

### *Violations of Laws, Regulations, Contracts and Grant Provisions or Abuse*

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

### *Matters Inconsequential to the Financial Statements*

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

### *Oversight Unit and Component Units*

Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Ocean Ridge, Florida is a municipal corporation organized pursuant to Chapter 15088, 1931 Laws of Florida. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units related to the Town.

### Consideration of Financial Emergency Criteria

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

### Annual Financial Report

Rules of the Auditor General requires that we determine whether the annual financial report for the Town of Ocean Ridge, Florida for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we noted that the two reports were in substantial agreement.

### Financial Condition Assessment Procedures

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

### Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2011, there were no departments that had expenditures in excess of appropriations.

### Single Audits

The Town expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2011, and was not required to have a federal single audit or a state single audit.

### Response to Management Letter

There were no items that required a response by management.

Pursuant to Chapter 119, Florida Statutes, this Management Letter is 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 of the Town of Ocean Ridge, members of the Town Commission, management, the Florida Auditor General, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

West Palm Beach, Florida  
May 24, 2012