



TOWN OF OCEAN RIDGE, FLORIDA

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

FISCAL YEAR ENDED SEPTEMBER 30, 2013



TOWN OF OCEAN RIDGE, FLORIDA
SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Ocean Ridge, Florida's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 data on pages 41 and 42, and the Schedule of Funding Progress - Other Postemployment Benefits on page 43 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Ocean Ridge, Florida's internal control over financial reporting and compliance.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
April 16, 2014

TOWN OF OCEAN RIDGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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, 2013. 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 position increased as a result of this year's operations. The assets plus deferred outflows of resources of the Town of Ocean Ridge exceeded its liabilities at the close of the most recent fiscal year by \$13,925,388 (net position) compared to last year when assets exceeded liabilities by \$13,642,382. The net position at the end of 2013 included \$3,382,656 in unrestricted net position.
- § The government activities revenues were \$5,309,959 at the close of fiscal year 2013.
- § The Town's total expenses were \$5,026,953 during the fiscal year 2013.
- § Total expenditures were \$5,295,511 during fiscal year 2013, of which \$94,899 was approved for final drainage improvements to Coconut Lane. Also, \$63,494 was expended for the Inlet Cay Piling Repairs, \$74,203 for the Bonito Drive Drainage Improvements, and \$180,483 for the Inlet Cay Island Drainage Repairs. Portions of these projects were funded through monies transferred from the General Fund.
- § At the end of the 2013 fiscal year, the unassigned fund balance for the general fund was \$2,278,070 or 47% 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 position includes all of the government's assets, deferred outflows of resources, 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 position and how it has changed. Net position, the difference between the Town's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position 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 Position

The Town's combined net position for the fiscal year ending 2013 is \$13,925,388. This is a \$283,006 increase over last year's net position of \$13,642,382.

**Summary of Net Position
Total Primary Government**

	2012	2013
Current Assets	\$ 3,708,824	\$ 3,694,192
Capital Assets	18,679,394	18,458,185
Total Assets	\$ 22,388,218	\$ 22,152,377
Deferred Outflows of Resources	\$ 686,641	\$ 469,549
Current Liabilities	\$ 184,815	\$ 156,188
Non-current liabilities	9,247,662	8,540,350
Total Liabilities	\$ 9,432,477	\$ 8,696,538
Net Position:		
Net Investment in Capital Assets	\$ 10,202,615	\$ 10,478,791
Restricted for Debt Service	62,969	63,941
Restricted for Building Code Enforcement	20,999	
Unrestricted	3,355,799	3,382,656
Total Net Position	\$ 13,642,382	\$ 13,925,388

Changes in Net Position

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 position for the year ended September 30:

Summary of Changes in Net Position

	<u>2012</u>	<u>2013</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services	\$ 778,606	\$ 763,534
Operating grants and contributions	67,083	30,500
Capital grants and contributions	64,773	119,415
General Revenues:		
Property Taxes	3,437,863	3,611,937
Other Taxes	543,902	559,254
Intergovernmental	223,005	196,838
Investment earnings	19,868	18,044
Other	10,313	10,437
Total Revenues	<u>5,145,413</u>	<u>5,309,959</u>
<u>Expenses:</u>		
General Government	1,050,189	1,032,675
Public Safety	2,594,891	2,650,350
Public Services	581,275	605,816
Public Works	457,612	453,673
Other	300,982	284,439
Total Expenses	<u>4,984,949</u>	<u>5,026,953</u>
Increase in net position	160,464	283,006
Net Position, beginning	13,481,918	13,642,382
Net Position, ending	<u>\$ 13,642,382</u>	<u>\$ 13,925,388</u>

General Fund Budgetary Highlights

Actual expenditures during 2013 were \$300,914 less than budgeted expenditures and actual revenues were \$137,958 more than budgeted amounts, which led to a \$366,747 excess of revenues over expenditures. A \$325,000 transfer was made to the Capital Projects Fund. The overall increase in the Fund Balance was \$46,747.

Capital Asset and Debt Administration

Capital Assets

At the end of the fiscal year 2013, the Town had \$18,458,185 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 5 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>2012</u>	<u>2013</u>
Land	\$ 801,675	\$ 801,675
Construction in Progress	384,308	179,719
Buildings	5,312,403	5,312,403
Equipment	863,365	886,959
Infrastructure	17,122,597	17,741,485
	<u>24,484,348</u>	<u>24,922,241</u>
Less Accumulated Depreciation	5,804,954	6,464,056
TOTALS	<u>\$ 18,679,394</u>	<u>\$ 18,458,185</u>

Debt and Long-Term Liabilities

As of September 30, 2013 the Town had long-term liabilities of \$4,738,282 owed to the Florida Department of Environmental Protection as part of the State Revolving Loan, a federal program with state match, \$3,244,037 owed to Bank of America for a promissory note, \$37,769 in accrued interest on long-term debt, \$73,234 in compensated absences, and \$15,248 in other postemployment benefits.

The Town's long term liabilities are summarized in the following table and are more fully explained in Note 6 to the financial statements.

Summary of Long-Term Liabilities

	2012	2013
State Revolving Fund Loan	\$ 5,066,099	\$ 4,738,282
Bank of America Promissory Note	3,413,830	3,244,037
OPEB	10,596	15,248
Compensated Absences	70,496	73,234
	\$ 8,561,021	\$ 8,070,801

Economic Factors and Next Year's Budgets and Rates

For the 2014 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 proposed for the fiscal year 2014 includes a minimal increase to the Garbage/Trash Rate.
- The general fund millage rate remains at 5.35 mills with an overall \$131,180 increase in the general fund expenses (even considering the \$225,000 additional transfer approved to the Capital Projects Fund), plus a \$100,000 original approved transfer to the Capital Projects Fund. 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 Unappropriated to balance the budget was approximately \$205,877 more than the prior year and includes a \$100,000 fund transfer.
- The Bonito Drive and Coconut Lane Drainage Improvements, and the Inlet Cay Piling Repairs were completed by FY 12/13 year end.
- The Inlet Cay Bridge Approach will be repaved at a cost of \$30,434.
- Drainage Repairs for the Inlet Cay Island and Thompson St. will be completed with funding from the Capital Projects Fund
- Three of the four garage bay doors will be replaced at a cost of \$18,000.
- Two police vehicles and one 2-passenger ATV will be purchased in FY 13/14.

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 Position
September 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,557,068
Investments	956,803
Accounts receivable (net)	99,405
Deferred charges	2,925
Restricted cash and cash equivalents	77,991
Capital assets	
Non-depreciable	981,394
Depreciable (net of depreciation)	<u>17,476,791</u>
Total assets	<u>\$ 22,152,377</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Accumulated decrease in fair value - interest rate swap	<u>\$ 469,549</u>
 LIABILITIES AND NET POSITION	
Current liabilities	
Accounts payable	\$ 50,874
Accrued payroll	58,662
Accrued interest payable	23,719
Accrued interest payable from restricted assets	14,050
Deferred revenue	8,883
Non-current liabilities	
Interest rate swap	469,549
Due within one year	538,408
Due in more than one year	<u>7,532,393</u>
Total liabilities	<u>8,696,538</u>
Net position	
Net investment in capital assets	10,478,791
Restricted for debt service	63,941
Unrestricted	<u>3,382,656</u>
Total net position	<u>13,925,388</u>
Total liabilities and net position	<u><u>\$ 22,621,926</u></u>

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2013

Function / Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities					
General government	\$ 1,032,675	\$ 202,113	\$ 30,500	\$	\$ (800,062)
Public safety	2,650,350	267,304			(2,383,046)
Public works	453,673			119,415	(334,258)
Public services	605,816	294,117			(311,699)
Interest on long term debt	284,439				(284,439)
Total governmental activities	5,026,953	763,534	30,500	119,415	(4,113,504)
General revenues					
Property taxes					3,611,937
Utility service taxes					358,224
Franchise taxes					151,526
Gasoline taxes					49,504
State shared revenues - unrestricted					161,340
Local shared revenues - unrestricted					35,498
Investment earnings					18,044
Miscellaneous					10,437
Total general revenues					4,396,510
Change in net position					283,006
Net position, beginning of year					13,642,382
Net position, end of year					\$ 13,925,388

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2013

	General	Capital Projects	Total
ASSETS			
Cash and cash equivalents	\$ 2,331,388	\$ 225,680	\$ 2,557,068
Investments	956,803		956,803
Accounts receivable (net)	87,463	11,942	99,405
Restricted cash and cash equivalents	77,991		77,991
Total assets	\$ 3,453,645	\$ 237,622	\$ 3,691,267
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 27,647	\$ 23,227	\$ 50,874
Accrued payroll	58,662		58,662
Deferred revenue	8,883		8,883
Total liabilities	95,192	23,227	118,419
Fund balances			
Restricted for:			
Debt service	77,991		77,991
Assigned to:			
Self insurance	160,000		160,000
Drainage	370,000		370,000
Beautification	115,000		115,000
Subsequent year budget	357,392		357,392
Capital projects		214,395	214,395
Unassigned	2,278,070		2,278,070
Total fund balances	3,358,453	214,395	3,572,848
Total liabilities and fund balances	\$ 3,453,645	\$ 237,622	\$ 3,691,267

See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
September 30, 2013

Fund balances total governmental funds \$ 3,572,848

Amounts reported for governmental activities in the statement of net position 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	\$ 24,922,241	
Less accumulated depreciation	<u>(6,464,056)</u>	18,458,185

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 position.

Deferred charges net of amortization	2,925	
Compensated absences	(73,234)	
Loans payable	(7,982,319)	
Other postemployment benefits	(15,248)	
Accrued interest on long-term debt	<u>(37,769)</u>	<u>(8,105,645)</u>

Net position of governmental activities		<u><u>\$ 13,925,388</u></u>
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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, 2013

	General	Capital Projects	Total
Revenues			
Property taxes	\$ 3,611,937	\$	\$ 3,611,937
Utility service taxes	358,224		358,224
Gasoline taxes	49,504		49,504
Sales taxes	122,640		122,640
Local business tax	2,489		2,489
Electric franchise fee	151,526		151,526
State shared revenues	38,700		38,700
Local shared revenues	44,745		44,745
Licenses and permits	179,693		179,693
Grants	47,465	119,415	166,880
Fines and forfeitures	14,201		14,201
Charges for services	567,151		567,151
Interest	17,967	77	18,044
Contributions	30,500		30,500
Miscellaneous	10,437		10,437
Total revenues	<u>5,247,179</u>	<u>119,492</u>	<u>5,366,671</u>
Expenditures			
Current			
General government	680,189		680,189
Public safety	2,603,448		2,603,448
Public works	163,167		163,167
Public services	605,816		605,816
Debt service			
Principal	497,610		497,610
Interest	286,652		286,652
Capital outlay	45,550	413,079	458,629
Total expenditures	<u>4,882,432</u>	<u>413,079</u>	<u>5,295,511</u>
Excess (deficiency) of revenues over expenditures	<u>364,747</u>	<u>(293,587)</u>	<u>71,160</u>
Other financing sources (uses)			
Proceeds from sale of capital assets	7,000		7,000
Transfers in		325,000	325,000
Transfers out	(325,000)		(325,000)
Total other financing sources (uses)	<u>(318,000)</u>	<u>325,000</u>	<u>7,000</u>
Net change in fund balances	46,747	31,413	78,160
Fund balances, beginning of year	<u>3,311,706</u>	<u>182,982</u>	<u>3,494,688</u>
Fund balances, end of year	<u>\$ 3,358,453</u>	<u>\$ 214,395</u>	<u>\$ 3,572,848</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, 2013

Net change in fund balances - total governmental funds \$ 78,160

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	\$ 460,319	
Less: current year depreciation	<u>(665,575)</u>	(205,256)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 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>497,610</u>	497,385

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		(15,953)
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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		(66,153)
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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	2,213	
Increase in compensated absences payable	(2,738)	
Increase in other postemployment benefits	<u>(4,652)</u>	<u>(5,177)</u>

Change in net position		<u>\$ 283,006</u>
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See notes to the financial statements

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

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.

As required by generally accepted accounting principles, these financial statements include the Town (the primary government) and its component units. Component units are legally separate entities for which the Town is financially accountable. The Town is financially accountable if:

- a) the Town appoints a voting majority of the organization’s governing board and (1) the Town is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town, or
- b) the organization is fiscally dependent on the Town and (1) there is a potential for the organization to provide specific financial benefits to the Town or (2) impose specific financial burdens on the Town.

Organizations for which the Town is not financially accountable are also included when doing so is necessary in order to prevent the Town’s financial statements from being misleading.

Based upon application of the above criteria, management of the Town has determined that no component units exist which would require inclusion in this report. Further, the Town is not aware of any entity that would consider the Town to be a component unit.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

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 position 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, 2013

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, 2013

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, 2013

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 who are union members may accumulate up to 84 hours of vacation leave and other employees may accumulate up to 80 hours. Town employees hired on or after May 7, 1991 may accumulate up to 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 position 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, 2013

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, 2013

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. In accordance with the Town’s fund balance policy, assignments may be made by formal action of the Town Commission or authority 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 Position

Net position is the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets plus deferred outflows of resources and (b) liabilities and deferred inflows of resources. A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. Net position is displayed in the following three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on the use either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

3. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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.

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, 2013 was 5.3500 (\$5.3500 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.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

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.

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.

Implementation of Governmental Accounting Standards Board Statements

The Town implemented the following Governmental Accounting Standards Board Statements during the fiscal year ended September 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 improves financial reporting by standardizing

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Governmental Accounting Standards Board Statements (Continued)

the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

Recently Issued Accounting Pronouncements

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

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

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

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

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

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement amends paragraph 137 of GASB 68 to require that, at transition, a government recognize the beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB 68.

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, 2013

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, 2013, the bank balance of the Town's deposits was \$3,627,529 and the carrying amount was \$3,591,712, which includes certificates of deposit of \$956,803 reported as investments. The Town also had \$150 in petty cash for a total carrying amount of \$3,591,862.

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.

As of September 30, 2013, 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	\$ 203,872
Certificate of Deposit	9 days	250,748
Certificate of Deposit	206 days	<u>502,183</u>
		<u>\$ 956,803</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

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

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, 2013, all the Town’s investments were insured or collateralized.

NOTE 4 – RECEIVABLES

Receivables as of September 30, 2013, for the Town’s major funds are as follows:

	General Fund	Capital Projects Fund
Taxes receivable	\$ 48,015	\$
Due from other governments	29,278	
Accounts receivable - billed	10,170	
Grants receivable		11,942
	87,463	11,942
Total receivables		
Less allowance for uncollectible accounts		
Net receivables	\$ 87,463	\$ 11,942

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 801,675	\$	\$	\$ 801,675
Construction in progress	384,308	412,315	(616,904)	179,719
Capital assets being depreciated:				
Buildings	5,312,403			5,312,403
Infrastructure	17,122,597	618,888		17,741,485
Equipment	<u>863,365</u>	<u>46,020</u>	<u>(22,426)</u>	<u>886,959</u>
Total at historical cost	<u>\$ 24,484,348</u>	<u>\$ 1,077,223</u>	<u>\$ (639,330)</u>	<u>\$ 24,922,241</u>
Less accumulated depreciation for:				
Buildings	\$ (810,411)	\$ (173,965)	\$	\$ (984,376)
Infrastructure	(4,390,801)	(426,285)		(4,817,086)
Equipment	<u>(603,742)</u>	<u>(65,325)</u>	<u>6,473</u>	<u>(662,594)</u>
Total accumulated depreciation	<u>\$ (5,804,954)</u>	<u>\$ (665,575)</u>	<u>\$ 6,473</u>	<u>\$ (6,464,056)</u>
Governmental activities capital assets, net	<u>\$ 18,679,394</u>	<u>\$ 411,648</u>	<u>\$ (632,857)</u>	<u>\$ 18,458,185</u>

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

Governmental activities:	
General government	\$ 333,916
Public safety	41,581
Public works	<u>290,078</u>
Total depreciation expense for governmental activities	<u>\$ 665,575</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 6 - 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 \$632,390. At September 30, 2013, principal and interest to maturity in 2025 to be paid from pledged future revenues totaled \$5,615,325. As of September 30, 2012, outstanding principal, including capitalized interest, was \$4,738,282. 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, 2013 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 337,084	\$ 130,860	\$ 467,944
2015	346,628	121,316	467,944
2016	356,442	111,502	467,944
2017	366,533	101,411	467,944
2018	376,910	91,034	467,944
2019-2023	2,050,785	288,933	2,339,718
2024-2025	<u>903,900</u>	<u>31,987</u>	<u>935,887</u>
	<u>\$ 4,738,282</u>	<u>\$ 877,043</u>	<u>\$ 5,615,325</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, 2013, the interest rate was 0.91393%.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 6 - 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 \$3,244,037 as of September 30, 2013.

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, 2013, the swap had a negative fair value of \$469,549 because interest rates have declined since the execution of the swap. The fair value increased \$217,092 during the fiscal year ended September 30, 2013 from a negative fair value of \$686,641 at September 30, 2012. 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, 2013, 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 September 30, 2013, the long-term senior unsecured debt of Bank of America, N.A., the swap's counterparty, was rated A by Fitch Ratings, A by Standard & Poor's, and A2 by Moody's Investors Service.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 6 - 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, 2013 remain constant over the life of the loan.

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Variable Rate Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Net Cash Flows</u>
2014	\$ 172,030	\$ 29,470	\$ 109,671	\$ 311,171
2015	179,680	27,850	103,641	311,171
2016	187,332	26,229	97,610	311,171
2017	196,002	24,393	90,776	311,171
2018	204,718	22,547	83,906	311,171
2019-2023	1,168,257	82,095	305,504	1,555,856
2024-2027	1,136,018	23,016	85,651	1,244,685
Totals	<u>\$ 3,244,037</u>	<u>\$ 235,600</u>	<u>\$ 876,759</u>	<u>\$ 4,356,396</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Interest Expense

Total interest costs incurred and paid on all Town debt for the year ended September 30, 2013 was \$284,439 and \$286,652, respectively.

During the year ended September 30, 2013, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Revolving Loan Fund	\$ 5,066,099	\$	\$ (327,817)	\$ 4,738,282	\$ 337,084
Bank of America Loan	3,413,830		(169,793)	3,244,037	172,030
OPEB	10,596	8,289	(3,637)	15,248	
Compensated absences	<u>70,496</u>	<u>54,493</u>	<u>(51,755)</u>	<u>73,234</u>	<u>29,294</u>
Total governmental activities	<u>\$ 8,561,021</u>	<u>\$ 62,782</u>	<u>\$ (553,002)</u>	<u>\$ 8,070,801</u>	<u>\$ 538,408</u>

NOTE 7 - 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, 2013

NOTE 8 - 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, 2013

NOTE 8 - 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 and employees are required to make contributions based upon statewide contribution rates. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. 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, 2013, are as follows:

Class	10/01/12 through 06/30/13	07/01/13 through 09/30/13
Regular Class	8.18%	9.95%
Senior Management Service Class	9.30%	21.31%
Special Risk Class	17.90%	22.06%

The above rates include a 3.00% employee contribution, 1.20% for the Retiree Health Insurance Subsidy Program discussed below, and a 0.03% administrative fee.

The Town’s contributions to the Florida Retirement System Pension Plan for the fiscal years ending September 30, 2011 through 2013 were equal to 100% of the required contributions for each fiscal year. The contributions are summarized below

	2011	2012	2013
Employer	\$ 140,311	\$ 96,354	\$ 116,435
Employee	7,165	28,111	28,080
Total	<u>\$ 147,476</u>	<u>\$ 124,465</u>	<u>\$ 144,515</u>

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, or calling toll free at 877-377-1737.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 8 - 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 1.20% 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, 2012 actuarial valuation for the fiscal year ending June 30, 2012 is 1.71% 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, 2011 through 2013 were \$15,661, \$14,885, and \$15,229 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, or calling toll free at 877-377-1737.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 8 - 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.

Participating employers are required to make contributions based upon statewide contributions rates. The contribution rates by job class for the Town’s employees for the fiscal year ended September 30, 2012, are as follows:

Class	10/01/12 through 06/30/13	07/01/13 through 09/30/13
Regular Class	8.18%	9.95%
Senior Management Service Class	9.30%	21.31%
Special Risk Class	17.90%	22.06%

The above rates include a 3.00% employee contribution, 1.20% for the Retiree Health Insurance Subsidy Program, and a 0.03% administrative fee. The Town’s total payroll for the year ended September 30, 2013 was \$1,449,042 and payroll for employees covered by the Plan was \$253,027. The Town and the covered employees made the required contributions of \$31,320 and \$7,591, respectively.

NOTE 9 - 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 \$905,112 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. The cost for the fiscal year ending September 30, 2014, will be \$941,316 based on the 4% minimum increase.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 10 - RISK MANAGEMENT

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

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

NOTE 11 - COMMITMENTS

Inspection Services

On August 1, 2012, 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, 2015. 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, 2013, the Town incurred costs of \$118,601 for inspection services pursuant to the agreement.

Solid Waste and Recycling Collection Services

Effective October 1, 2009, the Town entered into an agreement with Republic Services of Florida, Limited Partnership (Republic) 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, 2013, the Town made payments of \$235,442 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.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 11 – COMMITMENTS (Continued)

Construction Commitment

At September 30, 2013, the Town had the following commitment for construction projects.

<u>Project</u>	<u>Amount</u>
Inlet Cay Island Drainage Improvements	<u>\$ 79,096</u>

Encumbrances

At September 30, 2013, the Town had encumbrances of \$14,164 in the General Fund.

NOTE 12 – 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 position/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, 2013

NOTE 12 – 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	\$ 8,388
Interest on net OPEB obligation	477
Adjustment to annual required contribution	<u>(576)</u>
Annual OPEB cost	8,289
Estimated net contributions made	<u>(3,637)</u>
Increase in net OPEB obligation	4,652
Net OPEB obligation October 1, 2012	<u>10,596</u>
Net OPEB obligation September 30, 2013	<u>\$ 15,248</u>

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 12 – 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
09/30/11	\$ 6,633	34.4%	\$ 7,415
09/30/12	\$ 5,626	43.5%	\$ 10,596
09/30/13	\$ 8,289	43.9%	\$ 15,248

Funded Status

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

Actuarial valuation date	October 1, 2012
Actuarial accrued liability	\$ 37,093
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 37,093
Funded ratio	0.0%
Covered payroll	\$ 1,457,691
UAAL as a percentage of covered payroll	2.5%

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 two years 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, 2015. In future years, required trend data will be presented.

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Financial Statements
September 30, 2013

NOTE 12 – 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, 2012
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	8.5% for 2013 decreasing to 4.5% in 2017

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, 2013

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 3,606,501	\$ 3,606,501	\$ 3,611,937	\$ 5,436
Utility service taxes	346,500	346,500	358,224	11,724
Gasoline taxes	50,300	50,300	49,504	(796)
Sales taxes	120,000	120,000	122,640	2,640
Local business tax	3,000	3,000	2,489	(511)
Electric franchise fee	163,000	163,000	151,526	(11,474)
State shared revenues	38,150	38,150	38,700	550
Local shared revenues	50,000	50,000	44,745	(5,255)
Licenses and permits	132,150	132,150	179,693	47,543
Fines and forfeitures	12,400	12,400	14,201	1,801
Charges for services	548,420	548,420	567,151	18,731
Interest	27,500	27,500	17,967	(9,533)
Grants			47,465	47,465
Contributions			30,500	30,500
Miscellaneous	11,300	11,300	10,437	(863)
Total revenues	<u>5,109,221</u>	<u>5,109,221</u>	<u>5,247,179</u>	<u>137,958</u>
Expenditures				
Town commission	19,338	19,338	18,226	1,112
Town manager	136,808	136,808	132,570	4,238
Town clerk/finance	270,581	270,581	262,366	8,215
Legal	105,000	126,000	125,171	829
Appointed boards	6,000	6,000	1,650	4,350
General government	961,512	961,512	924,468	37,044
Public safety	2,883,988	2,840,988	2,648,998	191,990
Building and zoning	110,500	120,500	119,748	752
Solid waste	240,000	240,000	235,442	4,558
Environmental	198,800	252,520	250,626	1,894
Public works	196,819	204,286	163,167	41,119
Contingency	54,000	4,813		4,813
Total expenditures	<u>5,183,346</u>	<u>5,183,346</u>	<u>4,882,432</u>	<u>300,914</u>
Excess (deficiency) of revenues over (under) expenditures	(74,125)	(74,125)	364,747	438,872
Other financing sources (uses)				
Proceeds from sale of capital assets			7,000	7,000
Transfers out	(100,000)	(325,000)	(325,000)	
Total other financing sources (uses)	<u>(100,000)</u>	<u>(325,000)</u>	<u>(318,000)</u>	<u>7,000</u>
Net change in fund balances	<u>\$ (174,125)</u>	<u>\$ (399,125)</u>	46,747	<u>\$ 445,872</u>
Fund balance, beginning of year			<u>3,311,706</u>	
Fund balance, end of year			<u>\$ 3,358,453</u>	

TOWN OF OCEAN RIDGE, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2013

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 24. 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, 2013, 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, 2013

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%
10/1/2012	\$	\$ 37,093	\$ 37,093	0.0%	\$ 1,457,691	2.5%

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, 2015. In future years, required trend data will be presented.



NOWLEN, HOLT & MINER, P.A.

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

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

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Ocean Ridge's basic financial statements and have issued our report thereon dated April 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Ocean Ridge, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Ocean Ridge, Florida's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Ocean Ridge, Florida's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
April 16, 2014



NOWLEN, HOLT & MINER, P.A.

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

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

We have audited the financial statements of the Town of Ocean Ridge, Florida, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated April 16, 2014.

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 Independent Auditor’s 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 April 16, 2014, should be considered in conjunction with this Management Letter.

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

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 Provisions of Contracts or Grant Agreements, or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements, fraud, 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 which warrants the attention of those charged with governance. 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, 2013, 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, 2013. 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, 2013, 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, 2013, 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.

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representative, the Florida Auditor General, Federal and state awarding agencies, pass-through entities, management of the Town of Ocean Ridge, and members of the Town Commission, 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
April 16, 2014