

**TOWN OF
INDIAN RIVER
SHORES, FLORIDA**

**Basic
Financial Statements and
Supplemental Information**

**Year ended
September 30, 2012**

BERMAN & HOPKINS
WRIGHT & LAHAM
CPAS AND ASSOCIATES, LLP

TOWN OF INDIAN RIVER SHORES, FLORIDA

Official Directory

September 30, 2012

Town Council

Thomas W. Cadden
Mayor

Gerard A. Weick
Vice Mayor

Frances F. Atchison
Councilmember

Michael B. Ochsner
Councilmember

Richard M. Haverland
Councilmember

Administrative

Richard Jefferson
Town Manager

Judith L. Lewis, CPA
Town Treasurer

Chester E. Clem
Town Attorney

Laura Aldrich
Town Clerk

Tetra Tech HAI
Town Engineer

Robert H. Stabe, Jr.
Public Safety Director

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town of Indian River Shores' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Indian River Shores, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the Town of Indian River Shores, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Indian River Shores, Florida's, basic financial statements. The combining and individual nonmajor fund financial statements, the Combining Statement of Plan Net Assets, and the Schedule of Property Tax Valuations, Levies and Collections, are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

February 28, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

**TOWN OF INDIAN RIVER SHORES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

FINANCIAL HIGHLIGHTS

- Total net assets at September 30, 2012 were \$7,374,987. Of this amount, \$1,982,191 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- Combined ending fund balance of the governmental funds totaled \$3,653,397.
- The total revenues from all governmental funds sources were \$5,227,521, an increase of more than 8% from the prior year.
- The total gross expenses of all Town programs were \$5,611,075, a 10% increase over the prior fiscal year.
- By year end, the Town's total governmental funds expenditures exceeded total revenues and other financing sources and uses by \$698,866.
- Total expenditures and other financing sources and uses in the General Fund exceeded total revenues by \$1,059,449.
- General Fund actual revenues were \$17,535 less than budgeted while General Fund budget appropriations exceeded actual expenditures by \$313.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

- The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).
- Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes, certain fees and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs (business-type activities, such as utilities or a golf course). All of the Town's activities are included as governmental activities for fiscal year ended September 30, 2012.

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

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

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

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

The Town of Indian River Shores adopted an annual appropriated budget for each of its major funds for the fiscal year ended September 2012. Budgetary comparison schedules have been provided for these funds to demonstrate the level of compliance with these budgets.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Comparative data for fiscal years ending September 30, 2012 and 2011 are shown below.

TOWN OF INDIAN RIVER SHORES' NET ASSETS

September 30,		
	Governmental Activities	
	2012	2011
Current and other assets	\$ 4,220,756	\$ 4,707,167
Capital assets	4,315,933	4,189,713
Total assets	8,536,689	8,896,880
Long-term liabilities outstanding	615,078	771,807
Other liabilities	546,624	406,959
Total liabilities	1,161,702	1,178,766
Net assets:		
Invested in capital assets	4,315,933	4,189,713
Restricted	1,076,863	997,581
Unrestricted	1,982,191	2,530,820
Total net assets	\$ 7,374,987	\$ 7,718,114

The Statement of Net Assets and its concept are useful indicators of a governmental entity's financial health and stability over time. The Town of Indian River Shores experienced a net decrease in net assets for fiscal year 2012 of \$343,127 and a net decrease in net assets for fiscal year 2011 of \$286,615.

The Town, for both fiscal years, reports positive balances in all categories of net assets in its governmental activities. The Town's unrestricted net assets at September 30, 2012 decreased by \$548,629 (22%) under fiscal year 2011. Restricted net assets increased during fiscal year 2012 by \$79,282 (8%) over 2011 fiscal year end balances. The Town's net investment in capital assets increased by \$126,220 (3%) over fiscal year 2011. The Investment in capital assets consists of 59% of the net assets for fiscal year ending September 30, 2012 and 54% for fiscal year ending 2011.

Capital assets are used to provide services to citizens and they are not available for future spending. Although the investments in capital assets are reported net of any related debt, it should be noted that the resources needed to repay any related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities, should they ever exist. For the fiscal year 2012 & 2011, there was no debt associated with capital assets.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Road construction and maintenance restricted net assets are generated by the Road and Bridge special revenue fund while amounts restricted for building code enforcement are generated in the Planning, Zoning and Building Fund. This restricted fund balance increased by 8% from fiscal year 2011 to fiscal year 2012 primarily due to the reclassification of the planning, zoning and building funds as restricted assets under Florida Statutes.

Unrestricted net assets represent resources that may be used to meet the Town's ongoing obligations to citizens and creditors. This net asset category decreased by 22%, from fiscal year 2011 to 2012. The net decrease in unrestricted assets for fiscal year 2012 is related directly to an increase of approximately \$192,000 in the other post employment benefits, the early retirement agreements and incentives of six employees, and the buyout of the Town's employee sick leave banks.

The decision to offer the early retirement to these employees and buyout the sick leave banks was made to reduce future liabilities. The Town Council determined that the use of per diem employees would save the Town in the cost of payroll and the related benefits. After the buyout, no further sick leave would be paid out upon separation with the exception of amounts earned in the final year before retirement.

ANALYSIS OF TOWN'S OPERATIONS

The following table provides a summary of the Town's operations for the year ended September 30, 2012 and 2011.

TOWN OF INDIAN RIVER SHORES' CHANGES IN NET ASSETS

All Governmental Activities

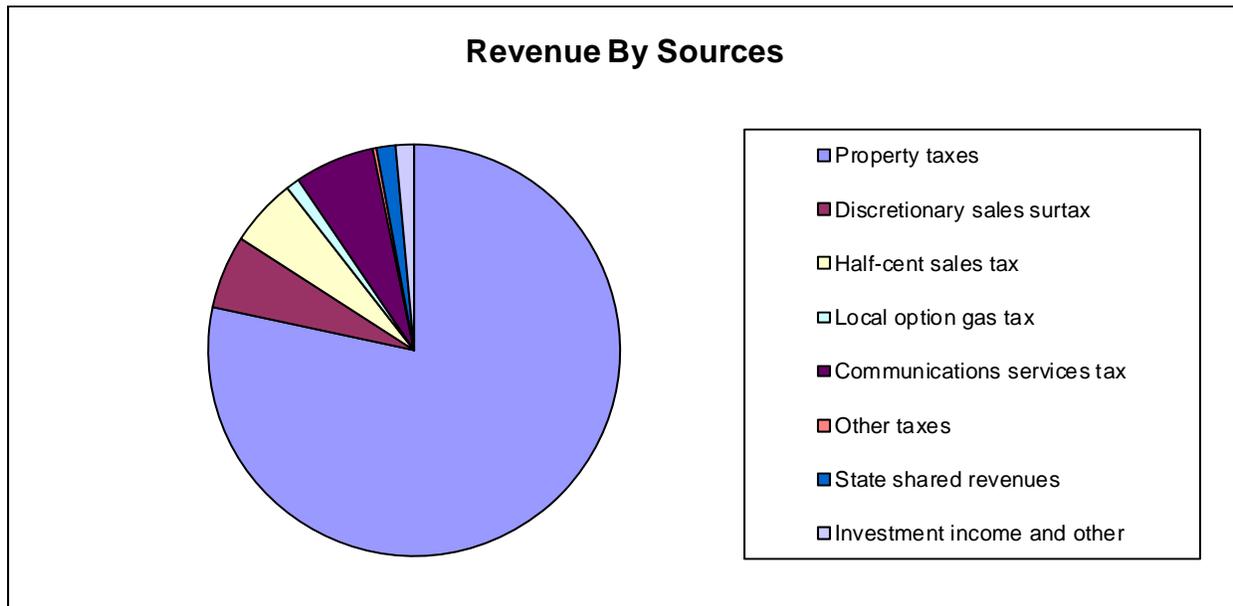
	2012	2011
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 799,656	\$ 626,560
Operating grants and contributions	19,466	3,985
General revenues:		
Property taxes	3,486,300	3,410,519
Discretionary sales surtax	255,910	158,829
Half-cent sales tax	237,028	216,883
Local option gas tax	47,350	46,861
Communications services tax	278,805	228,904
Other taxes	13,173	16,064
State shared revenues	66,498	65,049
Interest	19,232	11,664
Miscellaneous revenue	3,266	3,197
Investment gain (loss)	21,573	13,479
Gain (loss) on disposal of capital assets	19,691	(3,850)
Total revenues	5,267,948	4,798,144
<u>Expenses:</u>		
General government	1,355,951	1,272,990
Public safety	4,055,098	3,653,984
Engineering and planning services	11,014	3,773
Cemetery	5,152	7,774
Public works	167,146	119,008
Culture and recreation	16,714	27,230
Total expenses	5,611,075	5,084,759
Change in net assets	(343,127)	(286,615)
Net assets beginning of fiscal year	7,718,114	8,004,729
Net assets end of fiscal year	\$ 7,374,987	\$ 7,718,114

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

TOWN OF INDIAN RIVER SHORES
 Expenses and Program Revenues-Governmental Activities
 Fiscal year ended September 30, 2012

	Revenues	Expenses	Net (Expenses) Revenues
Building department	\$ 289,843	\$ 249,365	\$ 40,478
Postal center	224,886	302,369	(77,483)
Public safety	276,802	4,055,098	(3,778,296)
Cemetery	4,975	5,152	(177)
Community center	22,616	16,714	5,902
	<u>\$ 819,122</u>	<u>\$ 4,628,698</u>	<u>\$ (3,809,576)</u>

Revenues for the Town, other than charges for services shown above, are generated from a number of different sources and are, for the most part, dependent on different financial factors. This relative mix of different revenue sources for fiscal year ended 2012 is illustrated in the chart below.



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

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Town of Indian River Shores' governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of September 30, 2012, the Town of Indian River Shores governmental funds reported combined fund balances of \$3,653,397.

The General Fund is the chief operating fund of the Town. At September 30, 2012 the total fund balance in the General Fund was \$2,575,434 (70% of the total fund balance), of which 89% was unassigned, which is a measurement of the General Fund's liquidity. The General Fund's expenditures for the fiscal year exceeded revenues by \$708,329. The main reason for the deficit was the planned underfunding of current revenues needed to meet current expenses and utilizing Emergency Disaster funds set aside in prior years, sometimes referred to as a rainy day fund, instead. As explained earlier, the Town elected to buyout the sick leave balances and offer early retirement incentives to six employees. These two decisions added approximately \$850,000 in additional costs (\$550,000 in salaries, \$40,000 in taxes and \$260,000 in pension costs).

Special revenue funds are used to account for specific revenues and expenditures. The total fund balance of the Road and Bridge Fund at year ending September 30, 2012 was \$569,184 (16% of the total fund balance), a decrease of approximately \$63,561. This decrease was a result of the sidewalk repair and replacement starting at the south entrance of John's Island to the Town border costing \$84,000.

The Planning, Zoning and Building Fund is still a self-sustaining fund, showing an upturn in net revenues in fiscal year 2011-2012, compared to several years prior. The total fund balance of this fund at year ending September 30, 2012 was \$507,679 (14% of the total fund balance), an increase of approximately \$423,543. This was a result of the Town Council's decision to transfer the restricted funds from the General Fund to this fund in the amount of \$364,836.

The remaining two special revenue funds are less significant at the current fiscal year end, with combined positive fund balances of \$1,100 (less than .05% of the total fund balance).

BUDGETARY HIGHLIGHTS

Budget to actual schedules are provided in the required supplement information for each of the major funds. A budget column for both the original budget adopted for fiscal year ended 2012, as well as the final budget, is presented. A column for actual expenditures follows those columns, with the variance then following as well.

Both original and final budgets are estimates based on information available to management prior to and just after year end. Differences between the original and final budget resulted in an increase in revenues of \$196,928 and appropriations of \$876,035. Revenue increases were a result of increase in property taxes, state revenues and ambulance fees.

The change in expenditures from the original budget is directly related to the Town's decision to buyout the sick leave balances and offer early retirement incentives to six employees.

Expenditure and revenue differences between final budget and actual results were minimal due to the adjustment performed in November 2012. The major difference in the revenues of \$17,535 was a result of a decrease in actual discretionary sales surtax and post office revenues and an increase in the ambulance service revenues.

CAPITAL ASSET ADMINISTRATION

The Town of Indian River Shores' investment in capital assets includes land, buildings, improvements other than buildings, including infrastructure, furniture, fixtures and equipment. The Town's capital assets as of September 30, 2012 reflect an investment of \$4,315,933 net of accumulated depreciation. A comparative summary of net capital assets by category follows:

Capital Assets at Year End (net of depreciation)

	2012	2011	Difference
Land	\$1,428,482	\$1,428,482	\$ -
Buildings	1,876,071	1,937,649	(61,578)
Improvements other than buildings	232,702	157,200	75,502
Furniture, fixtures and equipment	778,678	666,382	112,296
Total capital assets	<u>\$4,315,933</u>	<u>\$4,189,713</u>	<u>\$ 126,220</u>

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

- Public Safety purchase of new ambulance with additional equipment: \$237,000
- Sidewalk replacement: \$84,000
- Replacement A/C for Council Chambers: \$8,300
- Bullet proof vests: \$11,000
- Depreciation expense: \$244,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates and fees to be charged for certain activities. The continuing focus nation wide has been on a stumbling economic revival of the economy, leading to what can be seen as a generally negative view of governments as a whole. Operating governments has been a very difficult task for both elected officials and government staff. It's been no different here, even if only as a perception of the economy as a whole.

What is seen on the horizon for the Town of Indian River Shores, however, is a bit different than what appears to be the case for other municipalities. While our focus at the Town has been and continues to be the achievement of our mission objectives, to make the Town of Indian River Shores the most livable and best managed town by providing courteous and quality services through teamwork, innovation and a total commitment to excellence, we have learned to do more with less. Every employee has been empowered to find ways to cut costs and keep expenses to a minimum. At the same time, the Town's elected officials recognize the need to sustain operations at their current level and keep the Town's work force stable and operating smoothly.

The following key economic factors reflect the Town's current operating environment:

- Property tax values continue to drop along the Treasure Coast, but less in sea-side municipalities than inland ones. Town of Indian River Shores values declined modestly from \$2,455,523,093 in 2011 to \$2,364,986,600 in 2012 or 3.69%.
- Revenue sharing from the State is projected to stay flat for the coming year.
- Interest rate earnings have yet to increase over the previous years and continue to remain less than 100 basis points.

The final budget adopted for the General Fund for fiscal year 2013 is reduced by 22% from the actual results for the General Fund for fiscal year 2012, of which approximately three fourths is related to the buyout of sick leave balances and early retirement incentives. The remaining difference is related to increased use of per-diem/part-time officers rather than full-time.

For fiscal year 2013, the Town Council elected to maintain the current millage rate of 1.4731. This level of funding was anticipated to provide a surplus of approximately \$526,000. From the surplus the Town Council decided to set aside \$250,000 for an extra payment towards the funding of the Police and Fire Defined Benefit plan. However as described in Note L, at the January 24, 2013 council meeting the Town Council elected to terminate the General Employee Pension Plan which may see this surplus being used for that purpose.

The Town's rainy day fund, the emergency disaster fund balance, stands at over \$1.9 million, at the end of fiscal year 2012 and should be adequate to cover unanticipated costs which were not anticipated in the upcoming budget year.

The 2012 unassigned fund balance of \$2,309,428 now stands at 61% of the adopted budget for fiscal year 2013. What this means is that the Town could cover the budgeted expenses for next 7 months barring any unforeseen changes.

REQUESTS FOR INFORMATION

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

Town of Indian River Shores, Florida

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents (Notes A-4, B)	\$ 3,899,539
Investments (Note B)	83,751
Accounts receivable, net of allowance	33,723
Due from other governments	82,696
Inventory	33,387
Prepaid expenses	<u>87,660</u>
Total current assets	<u>4,220,756</u>
Capital assets, not being depreciated (Notes A-7, C):	
Land	1,428,482
Capital assets, net of accumulated depreciation (Notes A-7, C):	
Buildings	1,876,071
Improvements other than buildings	232,702
Furniture, fixtures and equipment	<u>778,678</u>
Total capital assets	<u>4,315,933</u>
Total assets	<u>8,536,689</u>
LIABILITIES	
Accounts payable	64,878
Accrued expenses	50,854
Deposits	2,973
Other liabilities	905
Deferred revenue (Notes A-9, F)	427,014
Noncurrent liabilities:	
Due within one year	
Compensated absences (Notes A-8, E)	45,467
Other post employment benefits (Note H-4, E)	40,000
Due in more than one year	
Other post employment benefits (Note H-4, E)	<u>529,611</u>
Total liabilities	<u>1,161,702</u>
NET ASSETS	
Invested in capital assets	4,315,933
Restricted for road construction and maintenance	569,184
Restricted for code enforcement	507,679
Unrestricted	<u>1,982,191</u>
Total net assets	<u>\$ 7,374,987</u>

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

Town of Indian River Shores, Florida

STATEMENT OF ACTIVITIES

Year ended September 30, 2012

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
Town council	\$ 12,547	\$ -	\$ -	\$ -	\$ (12,547)
Town manager	158,767	-	-	-	(158,767)
Finance department	185,623	-	-	-	(185,623)
Town clerk	110,526	-	-	-	(110,526)
Postal center	302,369	224,886	-	-	(77,483)
Building department	249,365	289,843	-	-	40,478
General administration	254,414	-	-	-	(254,414)
Town attorney	51,012	-	-	-	(51,012)
Planning board	31,328	-	-	-	(31,328)
Public safety	4,055,098	257,336	19,466	-	(3,778,296)
Engineering and planning services	11,014	-	-	-	(11,014)
Cemetery	5,152	4,975	-	-	(177)
Public works	167,146	-	-	-	(167,146)
Culture and recreation	16,714	22,616	-	-	5,902
Total	\$ 5,611,075	\$ 799,656	\$ 19,466	\$ -	(4,791,953)

General revenues:

Taxes:	
Property taxes (Note A-11)	3,486,300
Discretionary sales surtax	255,910
Half-cent sales tax	237,028
Local option gas tax	47,350
Communications services tax	278,805
Other taxes	13,173
State shared revenues	66,498
Interest income	19,232
Miscellaneous revenue	3,266
Investment gain (loss)	21,573
Gain (loss) on disposal of capital assets	19,691
Total general revenues	4,448,826
Change in net assets	(343,127)
Beginning net assets	7,718,114
Ending net assets	\$ 7,374,987

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

Town of Indian River Shores, Florida

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

	General	Road and Bridge	Planning, Zoning and Building	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Notes A-4, B)	\$ 3,571,779	\$ 327,760	\$ -	\$ -	\$ 3,899,539
Investments (Note B)	-	83,751	-	-	83,751
Accounts receivable, net of allowance	33,723	-	-	-	33,723
Due from other governments	78,615	4,081	-	-	82,696
Due from other funds (Note D)	-	164,669	510,709	1,100	676,478
Inventory	33,387	-	-	-	33,387
Prepaid expenses	87,660	-	-	-	87,660
Total assets	\$ 3,805,164	\$ 580,261	\$ 510,709	\$ 1,100	\$ 4,897,234
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 52,467	\$ 11,077	\$ 1,334	\$ -	\$ 64,878
Accrued expenditures	49,158	-	1,696	-	50,854
Due to other funds (Note D)	676,478	-	-	-	676,478
Deposits	2,973	-	-	-	2,973
Other liabilities	905	-	-	-	905
Deferred revenue (Note F)	447,749	-	-	-	447,749
Total liabilities	1,229,730	11,077	3,030	-	1,243,837
Fund balances (Note G):					
Nonspendable:					
Prepays	87,660	-	-	-	87,660
Inventory - stamps	33,387	-	-	-	33,387
Restricted:					
Building code enforcement	-	-	507,679	-	507,679
Road construction and maintenance	-	569,184	-	-	569,184
Committed:					
Cemetery maintenance	154,959	-	-	-	154,959
Bike path construction and maintenance	-	-	-	1,100	1,100
Unassigned:					
General fund	343,619	-	-	-	343,619
Emergency funds	1,955,809	-	-	-	1,955,809
Total fund balances	2,575,434	569,184	507,679	1,100	3,653,397
Total liabilities and fund balances	\$ 3,805,164	\$ 580,261	\$ 510,709	\$ 1,100	\$ 4,897,234

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

Town of Indian River Shores, Florida

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

September 30, 2012

Fund balances - total governmental funds \$ 3,653,397

The net assets reported for governmental activities
in the statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and therefore are not reported in
the governmental funds. Those assets consist of:

Land	\$ 1,428,482	
Buildings, net	1,876,071	
Improvements other than buildings, net	232,702	
Furniture, fixtures and equipment, net	<u>778,678</u>	4,315,933

Deferred revenue in the governmental funds is susceptible
to full accrual on the entity-wide statements 20,735

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

Compensated absences	(45,467)
Other post employment benefits	<u>(569,611)</u>

Total net assets of governmental activities \$ 7,374,987

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

Town of Indian River Shores, Florida

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

Year ended September 30, 2012

	General	Road and Bridge	Planning, Zoning and Building	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note A-11)	\$ 3,486,300	\$ -	\$ -	\$ -	\$ 3,486,300
State revenue sharing	48,057	18,441	-	-	66,498
Discretionary sales surtax	255,910	-	-	-	255,910
Communication services tax	278,805	-	-	-	278,805
Intergovernmental	237,357	50,335	-	-	287,692
Federal grant revenue	5,481	-	-	-	5,481
Licenses and permits	-	-	289,843	-	289,843
Fines and forfeitures	15,473	-	-	-	15,473
Impact fees	-	738	-	601	1,339
Sale of burial rights	4,975	-	-	-	4,975
Other taxes	11,506	-	-	-	11,506
Franchise fees and rent	22,616	-	-	-	22,616
Post office revenues	224,886	-	-	-	224,886
Ambulance service revenue	221,128	-	-	-	221,128
Interest income	19,214	18	-	-	19,232
Miscellaneous revenue	12,698	-	1,566	-	14,264
Investment gain (loss)	-	21,573	-	-	21,573
	<u>4,844,406</u>	<u>91,105</u>	<u>291,409</u>	<u>601</u>	<u>5,227,521</u>
EXPENDITURES					
Current					
General government	1,012,976	46,964	232,702	-	1,292,642
Public safety	4,117,412	-	-	-	4,117,412
Public works	142,213	23,702	-	-	165,915
Capital outlay (Note C)	<u>280,134</u>	<u>84,000</u>	<u>-</u>	<u>-</u>	<u>364,134</u>
	<u>5,552,735</u>	<u>154,666</u>	<u>232,702</u>	<u>-</u>	<u>5,940,103</u>
Excess (deficiency) of revenues over (under) expenditures	(708,329)	(63,561)	58,707	601	(712,582)
Other financing sources (uses)					
Proceeds from sale of capital assets	13,716	-	-	-	13,716
Transfers in	-	-	364,836	-	364,836
Transfers out	<u>(364,836)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(364,836)</u>
Total other financing sources (uses)	<u>(351,120)</u>	<u>-</u>	<u>364,836</u>	<u>-</u>	<u>13,716</u>
Net change in fund balances	(1,059,449)	(63,561)	423,543	601	(698,866)
Fund balances, beginning of year	<u>3,634,883</u>	<u>632,745</u>	<u>84,136</u>	<u>499</u>	<u>4,352,263</u>
Fund balances, end of year	<u>\$ 2,575,434</u>	<u>\$ 569,184</u>	<u>\$ 507,679</u>	<u>\$ 1,100</u>	<u>\$ 3,653,397</u>

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

Town of Indian River Shores, Florida

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

Year ended September 30, 2012

Net change in fund balances - total governmental funds		\$ (698,866)
<p>The change in net assets reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Total capital outlay	\$ 364,134	
Less depreciation	<u>(243,889)</u>	120,245
<p>In the statement of activities, only the net loss on the sale and trade of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance.</p>		
		5,975
<p>Some revenues reported in the statement of activities are to be collected on a long-term basis and therefore are not reported as revenues in the funds.</p>		
		20,735
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses are:</p>		
Net decrease in compensated absences		401,726
Net increase in other post employment benefits		<u>(192,942)</u>
Change in net assets of governmental activities		<u><u>\$ (343,127)</u></u>

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

Town of Indian River Shores, Florida

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2012

	<u>Pension Trust Funds</u>
ASSETS	
Investment in defined benefit plan - general employees (Note A-4 and B)	\$ 339,952
Investment in defined benefit plan - public safety employees (Note A-4 and B)	8,171,174
Investment in public safety officer share plan (Note A-4 and B)	642,234
Investment in defined contribution plan (Note A-4 and B)	533,924
Contribution receivable	<u>41,953</u>
Total assets	<u>\$ 9,729,237</u>
NET ASSETS	
Net assets held in trust for pension benefits	<u>\$ 9,729,237</u>
Total net assets	<u>\$ 9,729,237</u>

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

Town of Indian River Shores, Florida

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended September 30, 2012

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 1,155,075
Employee	187,569
State	<u>164,907</u>
Total contributions	<u>1,507,551</u>
Investment gain:	
Net increase in fair value of investments	<u>1,342,998</u>
Total investment gain	<u>1,342,998</u>
Total additions	<u>2,850,549</u>
DEDUCTIONS	
Distributions	527,635
Administrative expenses	<u>30,725</u>
Total deductions	<u>558,360</u>
Change in net assets	2,292,189
Plan net assets at beginning of year	<u>7,437,048</u>
Plan net assets at end of year	<u><u>\$ 9,729,237</u></u>

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting entity

The Town was created and is governed by Special Act of the Legislature under Chapter 29163, Laws 1953, as amended by Ordinance Numbers 1 through 508. The Town is governed under the Town Manager-Council form of government, and by the Town Charter and state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council appointed Town Manager.

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

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

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

2. Government-wide and fund financial statements

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The Town reports the following major governmental funds:

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

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

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

Additionally, the Town reports the following fund:

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

4. Cash, cash equivalents, and investments

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

5. Receivables

The Town's receivables consist of balances due from other government sources, businesses, and individuals. After reviewing the individual account balances, the Town's management has determined that 63% of ambulance receivables are fully collectible. Therefore, an allowance for doubtful accounts of \$12,440 has been recorded as of September 30, 2012.

6. Interfund receivables and payables

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

7. Capital assets

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets (continued)

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

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

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

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

8. Compensated absences

All full-time employees earn sick leave at the rate of one shift day per month. The sick leave may be accumulated up to a maximum of 160 days and must be used or forfeited upon termination.

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

9. Deferred revenue

Deferred revenues are reported in the governmental fund financial statements when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise in both government-wide and fund financial statements when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the town has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Income tax

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

11. Property tax

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of Indian River County Property Appraiser and Indian River County Tax Collector. The laws of the State of Florida regulating tax assessments are also designed to assure a consistent property valuation method statewide. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills. For the year ended September 30, 2012, the Town's millage rate was 1.4731 mills. The tax levy of the Town is established by the Town Council prior to October 1st of each year and the Indian River County Property Appraiser incorporates the Town millages into the total tax levy, which includes Indian River County and the County School Board tax requirements among other overlapping governments.

All property is reassessed according to its fair market value on January 1st of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes. The assessed value at January 1, 2012, upon which the 2011-2012 levy was based, was approximately \$2.4 billion.

All taxes are due and payable on November 1st (levy date) of each year or as soon thereafter as the assessment roll is certified and delivered to the County Tax Collector. All unpaid taxes become delinquent on April 15 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. Taxes paid in March are paid without discount. Current tax collections, net of discounts taken, for the year ended September 30, 2012 were approximately 96% of the total tax levy.

On or prior to June 1st of each fiscal year, tax certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates are held by Indian River County.

12. Fund balance classification

The Town has adopted a Fund Balance Policy to comply with Governmental Accounting and Financial Standards Board Statement ("GASB") No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*; and to provide for the prudent disposition of Excess Funds realized in the General Fund. Within the governmental funds of the Town, Fund Balance shall be composed of nonspendable, restricted, committed, assigned, and unassigned amounts.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Fund balance classification (continued)

Fund Balance - Net assets, or the difference between assets and liabilities in a governmental fund, are considered Fund Balance.

Non-spendable Fund Balance - This classification represents funds that are inherently nonspendable. Resources that must be maintained intact pursuant to legal or contractual requirements are nonspendable, such as inventory and prepaid expenses.

Restricted Fund Balance - These funds are limited by externally enforceable limitations on use. This includes resources restricted by creditors, grantors, contributors or laws or regulations or other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance - Funds in this classification are those with limitations the town's government places on itself. The purpose of these funds is decided by Council action, and also requires Council action to change the purpose.

Assigned Fund Balance - Assigned fund balance has limitations based on the intended use of the funds: The assigned use can be established by the Council or the Town Manager as described in the financial statements and fund balance to be used in the subsequent year's budget.

Unassigned Fund Balance - The residual classification for the General Fund net resources is the amount of fund balance referred to as "unreserved." It may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

Restricted amounts shall be spent first unless there are legal documents/contracts prohibiting this, such as grant agreements. Further, the order of priority shall be Committed Fund Balance, followed by Assigned Fund Balance, and then Unassigned Fund Balance when expenditures are incurred for purposes for which amounts in any of classifications could be used.

Additionally, the Town has designated a minimum level of unassigned fund balance:

The Town will establish and maintain an Unassigned Fund Balance that has not been restricted, committed or assigned to a specific purpose within the General Fund, and will retain at least the upper range minimum recommended balance of 15 percent of operating revenues, retaining in the unreserved Fund Balance an amount adequate to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and Town emergencies. This and future levels of funding shall require the approval of Town Council. As of September 30, 2012, the Town has meet their requirements of minimum funding.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Inventory

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

14. Use of estimates

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

15. Effects of future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 68 - In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The objective of this statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This statement is not effective until September 30, 2015, however if the Town implemented the requirements at September 30, 2013, the effect would be a prior period adjustment of \$4,026,591, the unfunded actuarial accrued liability.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Town had the following cash and investments at September 30, 2012:

	<u>Fair Value</u>	<u>Duration</u>	<u>Rating</u>
Government-wide			
Cash	\$ 262,602	N/A	Not rated
Certificates of deposit	2,709,635	N/A	Not rated
Money market account	706,462	N/A	Not rated
Local government pooled investment accounts:			
Florida PRIME	220,840	39 days	AAAm (S&P)
Fund B	83,751	4.08 years	Not rated
	<u>\$ 3,983,290</u>		
Defined benefit plans			
Cash	\$ 219,681	N/A	N/A
Fixed Income Funds			
Broad Market High Quality Bond Fund	3,542,351	4.66	AA/V4 (Fitch)
Equity Funds			
High Quality Growth Equity Portfolio	732,269	N/A	Not Rated
Diversified Value Portfolio	750,576	N/A	Not Rated
Russell 1000 Enhanced Index Portfolio	2,050,353	N/A	Not Rated
Diversified Small Cap Equity Portfolio	951,950	N/A	Not Rated
International Equity Portfolio	906,183	N/A	Not Rated
Total equity funds	<u>5,391,331</u>		
Total defined benefit plans	<u>\$ 9,153,363</u>		
Defined contribution plan			
Mutual funds	<u>\$ 533,924</u>	N/A	Not rated

The Town's deposits and investments are insured by the Federal Depository Insurance Corporation ("FDIC") for up to \$250,000. At September 30, 2012, the Town's cash and cash equivalent balances were fully insured. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the Town pursuant to Section 280.08, Florida Statutes. Financial institutions must meet the criteria of being a Qualified Public Depository as described in the Florida Security for Public Deposits Act, under Chapter 280, Florida Statutes, before any investments are made with those institutions.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

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

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

On December 23, 2008, all Local Government Investment Pool ("LGIP") fund balances became 100% liquid. The LGIP was given a new name, "Florida PRIME," on August 3, 2009. The Florida PRIME is operated as a "2a-7 like" money market fund. As of September 30, 2012, the Town had \$220,840 in the Florida PRIME.

Currently, Fund B participants are prohibited from withdrawing funds from Fund B. As maturities occur in Fund B, the monies are released and transferred to the Florida PRIME Fund. Since October 1, 2011, \$18,985 of the Town's monies in Fund B have been released, leaving a balance of \$88,255. The SBA's interpretation in regards to Fund B is that it does not meet the requirements of a SEC 2a-7 like fund; therefore, Fund B uses the fluctuating net asset value ("NAV") for valuation. The current value of Fund B at September 30, 2012 is \$83,751.

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

Interest rate risk - The interest rate risk is the risk that the value of investments will decrease as a result of a change in interest rates. The interest rate risk associated with the Town's investments are included in the above table.

Credit risk - The Town's adopted investment guidelines require that the investments of the Town be limited to those investments contained in Florida Statutes 218.415(17) subparagraphs (a) through (d), which allow investments in the local government pooled investment account, securities and exchange commission required money market funds with the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury. The Town's investment policy does not further limit its investment choices. As of September 30, 2012, the state investment pool Fund B was not rated by a nationally recognized rating agency however Fund A was rated by S&P as noted in the table above. The credit risk associated with the defined benefit plan is included in the above table. Ratings are set by nationally recognized statistical rating organizations (Fitch and Moody's, S&P).

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,428,482	\$ -	\$ -	\$ 1,428,482
Capital assets, being depreciated:				
Buildings	3,158,929	14,011	-	3,172,940
Improvements other than buildings	267,033	84,000	-	351,033
Furniture, fixtures and equipment	2,132,913	272,123	143,653	2,261,383
Total capital assets being depreciated	5,558,875	<u>\$ 370,134</u>	<u>\$ 143,653</u>	5,785,356
Less accumulated depreciation for:				
Buildings	1,221,280	\$ 75,589	\$ -	1,296,869
Improvements other than buildings	109,833	8,498	-	118,331
Furniture, fixtures, and equipment	1,466,531	159,802	143,628	1,482,705
Total accumulated depreciation	2,797,644	<u>\$ 243,889</u>	<u>\$ 143,628</u>	2,897,905
Total capital assets, being depreciated, net	2,761,231			2,887,451
Governmental activities capital assets, net	<u>\$ 4,189,713</u>			<u>\$ 4,315,933</u>

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

General government	\$ 30,672
Public safety	190,847
Public works	13,538
Culture and recreation	8,832
	<u>\$ 243,889</u>

NOTE D - INTERFUND ACTIVITY

Due to/from other funds at September 30, 2012 is summarized as follows:

Fund	Due from other funds	Due to other funds
General fund	\$ -	\$ 676,478
Road and bridge fund	164,669	-
Planning, zoning and building fund	510,709	-
Other governmental funds	1,100	-
	<u>\$ 676,478</u>	<u>\$ 676,478</u>

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE D - INTERFUND ACTIVITY (continued)

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

Transfers from one fund of the reporting entity to another, which are not repayable and do not constitute payment or reimbursement for goods provided or services performed, are termed intragovernmental transfers out. For the year ended September 30, 2012, the Town Council approved the transfer of the restricted building department fund balance to the planning, zoning and building fund. These reserves were accrued prior to the establishment of the planning, zoning and building fund and should have been transferred upon its creation.

Fund	Transfers from other funds	Transfers to other funds
General fund	\$ -	\$ 364,836
Planning, zoning and building fund	364,836	-
	\$ 364,836	\$ 364,836

NOTE E - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2012:

	Balance at October 1, 2011	Increase	Decrease	Balance at September 30, 2012	Due within one year
Accrued compensated absences (Note A-8)	\$ 447,193	\$ 231,368	\$633,094	\$ 45,467	\$ 45,467
Other post employment benefits	376,669	192,942	-	569,611	40,000
	\$ 823,862	\$ 424,310	\$633,094	\$ 615,078	\$ 85,467

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE F - DEFERRED REVENUE

Deferred revenue, in the governmental funds at September 30, 2012 consists of three items. Discretionary sales surtax not expended and not recognized at September 30, 2012, local business taxes received in fiscal year 2012 and not recognized until October 1, 2012 and ambulance service receivable not currently available. The detail of the total amount of the deferred revenue at September 30, 2012 was \$420,590, \$6,424 and \$20,735, respectively.

NOTE G - FUND EQUITY AND NET ASSETS

Restrictions on net assets - In the fund financial statements, governmental funds report restricted, committed and assignment of fund balances with limitations imposed by creditors, grantors, laws, regulations, or enabling legislation; that can be used only for the specific purposes determined by a formal action; that are intended to be used for specific purposes that are neither considered restricted nor committed.

The following describes the restricted and committed fund balance used by the Town:

The Town establishes the following restricted fund balance:

Road and Bridge Fund:

Road construction and maintenance - This restriction of fund balance was established by the Town Council to account for special revenues for road, bridge, sidewalk type expenses and improvements and transportation related expenditures. The fund collects the Local Option Gas Tax, under Sections 206.41(1)(e), 206.87 (1)(c), and 336.135 of FL Statutes and a portion of the Revenue Sharing revenue coming from the state for the 8th cent motor fuel tax, and a Special Fuel and Motor Fuel Use Tax, which is allocated according to the percentage determined by the state, and authorized under the Municipal Revenue Sharing Program Section 206.605(1), 206.879(1), 212.20(6) and 218.20-.26 of FL Statutes.

The Town establishes the following restricted fund balance (continued):

Planning, Zoning, and Building Fund:

Building code enforcement - This restriction of fund balance was established by Florida Statute 553.80(1)(g) for the collection of building code inspection fees to be used for the enforcement of the Florida Building Code by the Town of Indian River Shores Ordinance No. 506 for the specific purpose revenues. Funds shall be utilized as directed by the Town Council consistent with the purpose for which each fund was established.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G - FUND EQUITY AND NET ASSETS (continued)

The Town establishes the following committed fund balance:

General Fund:

Cemetery maintenance - This restriction of fund balance was established by Resolution 104 of the Town Council in 1972 for upkeep and maintenance of the cemetery.

Bike Path and Pedestrian Way Fund:

Special revenue - This restriction of fund balance was established by the Town of Indian River Shores Ordinance No. 506 for the specific purpose revenues. Funds shall be utilized as directed by the Town Council consistent with the purpose for which each fund was established.

The activity in the restricted and committed general fund balances during the year ended September 30, 2012 is as follows:

	Balance, October 1, 2011	Transfers - in	Transfers - out	Balance, September 30, 2012
Building dept	\$ 364,836	\$ -	\$ 364,836	\$ -
Cemetery maintenance	154,259	700	-	154,959
	<u>\$ 519,095</u>	<u>\$ 700</u>	<u>\$ 364,836</u>	<u>\$ 154,959</u>

The increase to the commitment for cemetery maintenance is based on a calculation using the average interest earned by the Town and the net effect of the cemeteries activity for the year. The amount committed to the cemetery maintenance in the current year totaled \$700.

The decrease in the restriction for the building dept is the result of the Town Council approving the transfer of \$364,836 from the general fund to the planning, zoning and building fund.

All unassigned fund balances, are available to finance future expenditures. The emergency fund has been established to fund Town emergencies.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS

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

1. Defined contribution plan & deferred compensation plan

Defined Contribution Plan Description:

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

Funding Policy:

The plan specifies employer contributions as "matching", meaning the Town will contribute 11% of each participating employee's base compensation only if the employee contributes 5%, or more (before taxes), of their base compensation to the 457(b) Deferred Compensation Plan. Employees may join the defined contribution plan only after completing 1,000 hours of service within a consecutive twelve month period. Following completion of the required hours, employees may first become a member on the earlier of October 1 or April 1, whichever comes first. The Town's current year contributions to the defined contribution plan totaled \$42,975. Participants become 20% vested in the values resulting from employer contributions plus earnings after 3 years of employment service. Vesting increases by 20% for each additional year of employment with participants becoming fully vested after 7 years.

Deferred Compensation Plan Description:

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

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS (continued)

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

Funding Policy:

For Defined Contribution Plan, employee participants must contribute a minimum of 5% of compensation, net of overtime, to the deferred compensation plan. Other employees' contributions to this deferred compensation plan are discretionary, subject to federal limits. Employees may begin participating in this plan immediately upon hire and enrollment, with the required documents, but no later than entry date to the defined contribution plan, if eligible and participation is elected. Employee contributions totaled \$19,534 for the current year.

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

2. Town of Indian River Shores defined benefit plan

Plan Description:

The Defined Benefit Plan is a single-employer defined benefit pension plan administered by the FMPTF. The Plan covers all the Town's full-time employees that have elected to participate. Membership in the plan consists of 23 active employees during the year ended September 30, 2012. The defined benefit plan provides retirement and death benefits to plan members and beneficiaries. The Town has authority to establish and amend the plan provided such does not diminish or adversely affect benefit provisions. The plan is divided into two separate groups: Group A consists of all general employees, not including public safety officers, and Group B consists of all public safety officers. The Plan is reported as a pension trust fund and is included as part of the Town's reporting entity.

Funding Policy:

Plan members for both Group A and B were required to contribute minimum of 5% and maybe required to contribute up to a maximum of 9% (before taxes) of their annual compensation. The Town is required to contribute at an actuarially determined rate. When the employer's required contribution exceeds 11% of covered payroll (meaning the plan is under-funded), the excess liability is to be split by the Town and the active employee participants. The excess contributions are allocated between the Town and active employees in direct proportion of the employee contributions to the employer contributions. The Town and the employees split the excess liability up until the employee contribution reached the maximum of 9%, thus requiring the Town to contribute at an actuarial determined rate of 59.29% of covered payroll for Group A and 53.32% of covered payroll for Group B. Administrative costs are financed through investment earnings.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS (continued)

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

Annual Pension Cost and Net Pension Obligation:

An actuarial valuation report was issued for the year ended September 30, 2012 and dated as of October 1, 2011. The current year actuarial uses individual entry age normal actuarial cost method. The annual required contribution for the years ended September 30, 2012 was determined as part of the actuarial valuation dated October 1, 2011, using the individual entry age normal actuarial cost method.

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

Group A

Valuation Date	October 1, 2011
Actuarial Cost Method	Individual entry age normal cost
Amortization Method	Level percentage, closed
Remaining Amortization Period	13 years
Asset Valuation Method	Five year smoothed market
Actuarial Assumptions:	
Investment rate of return	6.90% compounded annually
Projected salary increases	5.00% per year

Group B

Valuation Date	October 1, 2011
Actuarial Cost Method	Individual entry age normal cost
Amortization Method	Level-dollar, closed
Remaining Amortization Period	8 years
Asset Valuation Method	Five year smoothed market
Actuarial Assumptions:	
Investment rate of return	6.50% compounded annually
Projected salary increases	5.00% per year

The following is a schedule of the Town's contributions to the defined benefit plan for September 30, 2012 and the preceding two years:

Year ended September 30,	Annual required contributions	Percent contributed	Actual Contributions	Net Pension Obligation
2010	\$ 581,174	106%	\$ 618,563	-
2011	\$ 555,219	109%	\$ 604,869	-
2012	\$ 964,851	115%	\$ 1,112,100	-

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS (continued)

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

The actuarial valuation assumptions in the report dated October 1, 2009 includes a (a) 7.75% investment rate of return (net of expenses), which is a decrease of .25% compared to the prior year, and projected salary increases of 5% per year. The actuarial valuation assumptions in the report dated October 1, 2011 for Group A includes a (a) 6.90% investment rate of return (net of expenses), which is a decrease of .85% compared to the prior year, and projected salary increases of 5% per year. The actuarial valuation assumptions in the report dated October 1, 2011 for Group B includes a (a) 6.50% investment rate of return (net of expenses), which is a decrease of 1.25% compared to the prior year, and projected salary increases of 5% per year.

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

Plan Description:

The Town's Public Safety Officer Share Plan was adopted to implement the provisions of Chapters 175 and 185, Florida Statutes, and to provide a mechanism to pay required "extra benefits" to the public safety officers based on the growth of insurance premium tax revenue pursuant to Chapters 175 and 185. The Plan is administered by the FMPTF. The monies are to be an additional benefit to the public safety officers that are participants of the Town's defined benefit plan mentioned above; 15 employees at September 30, 2012. In accordance with provisions of Florida Statute 175 and 185, each participant is entitled to one share for each year of credited service as a public safety officer of the Town, measured from October 1, 2006.

Funding Policy:

The monies to fund this plan shall be derived exclusively from monies received from the state and not from any additional taxes levied by the Town. The Town shall bear no expense in respect to the operation of this plan. The Board of Trustees shall pay all costs and expenses associated with the management and operation of this plan for the year. They may also set aside monies needed to cover expenses for the next fiscal year. After all expenses are covered, the Board of Trustees will then allocate and credit to the fund all monies left over on behalf of the participants of the plan. State contributions for the fiscal year ended September 30, 2012 totaled \$164,907.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS (continued)

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

Plan Description:

Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the Town and eligible dependents, may continue to participate in the Town's fully-insured benefit plan for medical, prescription drug, dental, vision and life insurance coverages. The Town subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, pursuant to a policy adopted by the Town Council on September 26, 2002, eligible retirees receive insurance coverage at explicitly subsidized premium rates - rates that are lower than full blended rates charged by the insurance vendors. Amount of subsidy depends on service with the Town at the time of Retirement and is described below. The benefits provided under this defined benefit plan are provided for a retiree's lifetime (or until such time at which retiree discontinues coverage under the Town sponsored plans, if earlier). Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

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

Funding Policy:

Contribution rates for the Plan are established on an annual basis. Eligible retirees and their covered dependents receiving benefits contribute 100% of their premium costs for medical insurance, except as noted above. The ability of retirees to obtain health insurance coverage at a group rate which includes active employees constitutes a significant economic benefit to retirees, or an "implicit" subsidy. This implicit subsidy is considered to be an Other Post Employment Benefit (OPEB) obligation of the Town. The Town is currently funding this OPEB obligation on a pay-as-you-go basis, contributing only those amounts necessary to provide for its portion of current year benefit costs and expenses. For the year ended September 30, 2012, the Town subsidized \$14,991 of medical costs for its retirees.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H - PENSION PLANS (continued)

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

Annual OPEB Cost and Net OPEB Obligation:

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

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

Schedule of annual cost and Net OPEB Obligation

Annual Required Contribution (ARC)	\$ 232,334
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	232,334
Contributions made	(39,392)
Interest on employer contribution	-
Increase in net OPEB obligation	192,942
Net OPEB obligation - beginning of year	376,669
Net OPEB obligation - end of year	\$ 569,611

As of September 30, 2012, no trust has been established for the Town.

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the fiscal year ended September 30, 2012, are presented below.

The following is the schedule of employer contributions:

Schedule of Employer Contributions - OPEB

Percentage of Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2012	\$ 232,334	17%	\$ 569,611

See the Schedule of Funding Progress on page 46.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE I - ICMA DEFERRED COMPENSATION PLAN

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

In fiscal year 2002, Town Council passed a motion to allow the Town Manager, upon hire, to substitute the ICMA deferred compensation plan for the Town's defined benefit or defined contribution plan participation choices. In fiscal year 2004, Town Council passed a resolution acknowledging the Building Official, upon hire, as a participant in the ICMA deferred compensation plan, also in lieu of participation in either the Town's defined benefit or defined contribution plan choices. During 2012, the Town Manager and the Building Official positions were filled by the same person. The amount contributed (11% of base compensation) on behalf of the Town Manager / Building Official was a total of \$16,343 for the year ended September 30, 2012.

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

NOTE J - COMMITMENTS AND CONTINGENCIES

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

NOTE K - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. In order to limit its exposure to these risks, the Town is a participant in the Florida League of Cities (a not-for-profit corporation) insurance program for workers compensation, general and auto liability. The insurance program purchases excess and specific coverages from third party carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. Participants are not assessed for unanticipated losses incurred by the program. Additionally, the Town has purchased commercial property insurance and various other insurance coverages from third parties to cover other risks that the Town may be exposed to. Premiums paid by the Town during the year totaled \$185,218. There have been no significant reductions in insurance coverages during fiscal year 2012. Settled claims resulting from the risks described above have not exceeded the insurance coverage in any of the previous three years.

Town of Indian River Shores, Florida

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE L - SUBSEQUENT EVENT

1. On January 24, 2013, the Town Council approved creating an incentive of \$2,000 per year per retiree who elects to opt out of the Town's health insurance and eliminate the subsidizing currently in place. The \$2,000 incentive will remain in effect until the retirees turns 65. This incentive would be effective May 1, 2013. The effects of this decision on the future other post employment benefits and financial statements can not be determined as of the date of the audit report.
2. On January 24, 2013, the Town Council approved the termination of the General Employee Pension Plan. The decision was to pay lump sums to each of the 5 members (2 active and 3 retired) at an estimated cost of \$555,000, of which an estimated \$212,000 would need to be paid by the Town's General Fund. The actual final termination date of plan cannot be determined as of the date of the audit report.
3. Evaluating subsequent events

The Town has evaluated subsequent events through February 28, 2013, the date which the financial statements were issued.

REQUIRED SUPPLEMENTAL INFORMATION

Town of Indian River Shores, Florida

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

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 3,448,279	\$ 3,488,011	\$ 3,486,300	\$ (1,711)
State revenue sharing	50,343	51,679	48,057	(3,622)
Discretionary sales surtax	255,880	289,583	255,910	(33,673)
Communication services tax	272,000	278,805	278,805	-
Intergovernmental	233,736	233,736	237,357	3,621
Federal grant revenue	-	5,481	5,481	-
Fines and forfeitures	16,200	6,912	15,473	8,561
Sale of burial rights	5,000	5,000	4,975	(25)
Other taxes	12,000	12,000	11,506	(494)
Franchise fees and rent	18,950	25,303	22,616	(2,687)
Post office revenues	241,200	244,765	224,886	(19,879)
Ambulance service revenue	100,000	192,277	221,128	28,851
Interest income	11,150	16,633	19,214	2,581
Miscellaneous revenue	275	11,756	12,698	942
	<u>4,665,013</u>	<u>4,861,941</u>	<u>4,844,406</u>	<u>(17,535)</u>
EXPENDITURES				
Current				
General government	1,030,283	1,012,977	1,012,976	1
Public safety	3,286,293	4,111,799	4,117,412	(5,613)
Public works	104,557	145,163	142,213	2,950
Capital outlay	255,880	283,109	280,134	2,975
	<u>4,677,013</u>	<u>5,553,048</u>	<u>5,552,735</u>	<u>313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,000)</u>	<u>(691,107)</u>	<u>(708,329)</u>	<u>(17,222)</u>
Other financing source (uses)				
Proceeds from sale of capital assets	12,000	12,000	13,716	1,716
Transfers out	-	-	(364,836)	(364,836)
Total other financing sources (uses)	<u>12,000</u>	<u>12,000</u>	<u>(351,120)</u>	<u>(363,120)</u>
Net change in fund balances	<u>-</u>	<u>(679,107)</u>	<u>(1,059,449)</u>	<u>(380,342)</u>
Fund balances, beginning of year	<u>3,634,883</u>	<u>3,634,883</u>	<u>3,634,883</u>	<u>-</u>
Fund balances, end of year	<u>\$ 3,634,883</u>	<u>\$ 2,955,776</u>	<u>\$ 2,575,434</u>	<u>\$ (380,342)</u>

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

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

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
State revenue sharing	\$ 20,588	\$ 20,588	\$ 18,441	\$ (2,147)
Intergovernmental	52,835	52,835	50,335	(2,500)
Impact fees	1,000	1,000	738	(262)
Interest income	10	10	18	8
Investment gain (loss)	-	7,002	21,573	14,571
Miscellaneous revenue	-	16,426	-	(16,426)
	<u>74,433</u>	<u>97,861</u>	<u>91,105</u>	<u>(6,756)</u>
EXPENDITURES				
Current				
General government	46,960	46,960	46,964	(4)
Public works	27,473	23,705	23,702	3
Capital outlay	-	84,000	84,000	-
	<u>74,433</u>	<u>154,665</u>	<u>154,666</u>	<u>(1)</u>
Excess (deficiency) of revenues over (under) expenditures	-	(56,804)	(63,561)	(6,757)
Other financing source (uses)				
Transfers in	-	63,806	-	(63,806)
Total other financing uses	-	63,806	-	(63,806)
Net change in fund balances	-	7,002	(63,561)	(70,563)
Fund balances, beginning of year	<u>632,745</u>	<u>632,745</u>	<u>632,745</u>	-
Fund balances, end of year	<u>\$ 632,745</u>	<u>\$ 639,747</u>	<u>\$ 569,184</u>	<u>\$ (70,563)</u>

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET TO ACTUAL - PLANNING, ZONING AND
BUILDING FUND**

September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Licenses and permits	\$230,634	\$231,203	\$ 289,843	\$ 58,640
Miscellaneous revenue	1,500	1,500	1,566	66
	<u>232,134</u>	<u>232,703</u>	<u>291,409</u>	<u>58,706</u>
EXPENDITURES				
Current				
General government	229,134	232,703	232,702	(1)
Capital outlay	3,000	-	-	-
	<u>232,134</u>	<u>232,703</u>	<u>232,702</u>	<u>(1)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>58,707</u>	<u>58,707</u>
Other financing source (uses)				
Transfers in	-	-	364,836	364,836
Total other financing uses	<u>-</u>	<u>-</u>	<u>364,836</u>	<u>364,836</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>423,543</u>	<u>423,543</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>84,136</u>	<u>84,136</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 507,679</u>	<u>\$ 507,679</u>

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

SCHEDULE OF FUNDING PROGRESS

Year ended September 30, 2012

Defined Benefit Plan						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a % of covered payroll [(b-a)/c]
October 1, 2007	\$ 4,104,494	\$ 4,104,494	\$ -	100.0%	\$ 1,686,300	0.0%
October 1, 2008	\$ 4,198,311	\$ 7,693,066	\$ 3,494,755	54.6%	\$ 1,115,829	313.2%
October 1, 2009	\$ 5,042,263	\$ 7,831,910	\$ 2,789,647	64.4%	\$ 1,752,921	159.1%
October 1, 2010	\$ 6,682,326	\$ 7,831,910	\$ 1,149,584	85.3%	\$ 1,690,000	68.0%
October 1, 2011	\$ 6,153,843	\$ 10,180,434	\$ 4,026,591	60.4%	\$ 1,807,842	222.7%

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

*Note - 2010 was the first year of the calculation. Additional information will be added as it becomes available.

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

See accompanying note to required supplemental information.

Town of Indian River Shores, Florida

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Budgets and budgetary accounting

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

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

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

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

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

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

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

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

Town of Indian River Shores, Florida

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In the September 30, 2010 valuation, a discount rate of 3.50% was used, based on the historical and expected returns of the Employer's short-term investment portfolio. An inflation rate of 3.00% was assumed. In addition, the Entry Age Normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2012 was 13 years. Health insurance trends start at 6.00% for the fiscal year ending in 2011 and 5.75% for 2012, grading down to 5.00% at the ultimate trend rate by 2015.

SUPPLEMENTAL COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

GENERAL FUND

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

Town of Indian River Shores, Florida

**GENERAL FUND
COMPARATIVE BALANCE SHEETS**

September 30,

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 3,571,779	\$ 3,828,442
Accounts receivable, net of allowance	33,723	58,613
Due from other governments	78,615	75,564
Inventory	33,387	21,240
Prepaid expenses	87,660	99,192
Other current assets	-	2,211
Total assets	\$ 3,805,164	\$ 4,085,262
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 52,467	\$ 43,945
Accrued expenditures	49,158	49,899
Due to other funds	676,478	104,838
Deposits	2,973	4,500
Other liabilities	905	775
Deferred revenue	447,749	246,422
Total liabilities	1,229,730	450,379
Fund balances:		
Nonspendable:		
Prepays	87,660	99,192
Inventory - stamps	33,387	21,240
Restricted:		
Building code enforcement	-	364,836
Committed:		
Cemetery maintenance	154,959	154,259
Unassigned:		
General fund	343,619	647,295
Emergency disasters	1,955,809	2,348,061
Total fund balances	2,575,434	3,634,883
Total liabilities and fund balances	\$ 3,805,164	\$ 4,085,262

Town of Indian River Shores, Florida

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

Years ended September 30,

	2012	2011
REVENUES		
Property taxes	\$ 3,486,300	\$ 3,410,519
State revenue sharing	48,057	46,344
Discretionary sales surtax	255,910	158,829
Communication services tax	278,805	228,904
Intergovernmental	237,357	217,212
Federal grant revenue	5,481	-
Fines and forfeitures	15,473	13,595
Sale of burial rights	4,975	7,700
Other taxes	11,506	12,209
Franchise fees and rent	22,616	19,878
Post office revenues	224,886	242,948
Ambulance service revenue	221,128	58,389
Interest income	19,214	11,652
Miscellaneous revenue	12,698	1,481
	4,844,406	4,429,660
EXPENDITURES		
Current		
General government	1,012,976	955,642
Public safety	4,117,412	3,314,994
Public works	142,213	97,267
Capital outlay	280,134	159,844
	5,552,735	4,527,747
Excess (deficiency) of revenues over (under) expenditures	(708,329)	(98,087)
Other financing sources (uses)		
Proceeds from sale of capital assets	13,716	4,535
Transfers in	-	-
Transfers out	(364,836)	(3,750)
Total other financing sources (uses)	(351,120)	785
Net change in fund balances	(1,059,449)	(97,302)
Fund balances, beginning of year	3,634,883	3,732,185
Fund balances, end of year	\$ 2,575,434	\$ 3,634,883

ROAD AND BRIDGE FUND

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

Town of Indian River Shores, Florida

ROAD AND BRIDGE FUND
COMPARATIVE BALANCE SHEETS

September 30,

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 327,760	\$ 536,967
Investments	83,751	81,163
Due from other governments	4,081	3,775
Due from other funds	164,669	11,472
Total assets	<u>\$ 580,261</u>	<u>\$ 633,377</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 11,077	\$ 632
Total liabilities	<u>11,077</u>	<u>632</u>
Fund balances:		
Restricted:		
Road construction and maintenance	<u>569,184</u>	<u>632,745</u>
Total liabilities and fund balances	<u>\$ 580,261</u>	<u>\$ 633,377</u>

Town of Indian River Shores, Florida

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

Years ended September 30,

	2012	2011
REVENUES		
State revenue sharing	\$ 18,441	\$ 18,705
Intergovernmental	50,335	49,846
Impact fees	738	738
Interest income	18	12
Investment gain (loss)	21,573	13,479
	91,105	82,780
EXPENDITURES		
Current		
General government	46,964	45,211
Public works	23,702	15,495
Capital outlay	84,000	7,002
	154,666	67,708
Excess (deficiency) of revenues over (under) expenditures	(63,561)	15,072
Net change in fund balances	(63,561)	15,072
Fund balances, beginning of year	632,745	617,673
Fund balances, end of year	\$ 569,184	\$ 632,745

PLANNING, ZONING AND BUILDING FUND

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

Town of Indian River Shores, Florida

**PLANNING, ZONING AND BUILDING FUND
COMPARATIVE BALANCE SHEETS**

September 30,

	2012	2011
ASSETS		
Due from other funds	\$ 510,709	\$ 86,824
Total assets	\$ 510,709	\$ 86,824
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 1,334	\$ 1,085
Accrued expenditures	1,696	1,604
Due to other governments	-	(1)
Total liabilities	3,030	2,688
Fund balances:		
Restricted:		
Building code enforcement	507,679	84,136
Total fund balances	507,679	84,136
Total liabilities and fund balances	\$ 510,709	\$ 86,824

Town of Indian River Shores, Florida

**PLANNING, ZONING AND BUILDING FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

September 30,

	2012	2011
REVENUES		
Licenses and permits	\$ 289,843	\$ 284,050
Miscellaneous revenue	1,566	2,716
	291,409	286,766
EXPENDITURES		
Current		
General government	232,702	199,108
Capital outlay	-	22,636
	232,702	221,744
Excess (deficiency) of revenues over (under) expenditures	58,707	65,022
Other financing source (uses)		
Transfers in	364,836	-
	423,543	65,022
Net change in fund balances	423,543	65,022
Fund balances, beginning of year	84,136	19,114
Fund balances, end of year	\$ 507,679	\$ 84,136

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

Town of Indian River Shores, Florida

**NONMAJOR GOVERNMENTAL FUNDS
COMPARATIVE COMBINING BALANCE SHEETS**

September 30,

	Bike Path and Pedestrian Way Fund	Building Permit Surcharge Fund	Totals	
			2012	2011
ASSETS				
Due from other funds	\$ 1,100	\$ -	\$ 1,100	\$ 6,541
Total assets	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ 6,541</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other governments	\$ -	\$ -	\$ -	\$ 6,042
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,042</u>
Fund balances:				
Committed:				
Bike path construction and maintenance	1,100	-	1,100	499
Total fund balances	<u>1,100</u>	<u>-</u>	<u>1,100</u>	<u>499</u>
Total liabilities and fund balances	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ 6,541</u>

Town of Indian River Shores, Florida

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

September 30,

	Bike Path and Pedestrian Way Fund	Building Permit Surcharge Fund	Totals	
			2012	2011
REVENUES				
Impact fees	\$ 600	\$ 1	\$ 601	\$ 2,788
	600	1	601	2,788
EXPENDITURES				
Current				
General government	-	-	-	2,189
Capital outlay	-	-	-	5,100
	-	-	-	7,289
Excess (deficiency) of revenues over (under) expenditures	600	1	601	(4,501)
Other financing source (uses)				
Transfers in	-	-	-	3,750
Net change in fund balances	600	1	601	(751)
Fund balances, beginning of year	500	(1)	499	1,250
Fund balances, end of year	\$ 1,100	\$ -	\$ 1,100	\$ 499

PENSION TRUST FUNDS

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

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

Town of Indian River Shores, Florida

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

September 30,

	2012	2011
ASSETS		
Investment in defined benefit plan - general employees	\$ 339,952	\$ 285,597
Investment in defined benefit plan - public safety employees	8,171,174	6,745,536
Investment in public safety officer share plan	642,234	-
Investment in defined contribution plan	533,924	405,915
Contribution receivable	41,953	-
Total assets	\$ 9,729,237	\$ 7,437,048
NET ASSETS		
Net assets held in trust for pension benefits	\$ 9,729,237	\$ 7,437,048
Total net assets	\$ 9,729,237	\$ 7,437,048

Town of Indian River Shores, Florida

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

Years ended September 30,

	2012	2011
ADDITIONS		
Contributions:		
Employer	\$ 1,155,075	\$ 790,019
Employee	187,569	7,475
State	164,907	139,516
Total contributions	1,507,551	937,010
Investment gain:		
Net increase in fair value of investments	1,342,998	50,127
Total investment gain	1,342,998	50,127
Total additions	2,850,549	987,137
DEDUCTIONS		
Distributions	527,635	214,495
Administrative expenses	30,725	17,920
Total deductions	558,360	232,415
Change in net assets	2,292,189	754,722
Plan net assets at beginning of year	7,437,048	6,682,326
Plan net assets at end of year	\$ 9,729,237	\$ 7,437,048

SUPPLEMENTAL INFORMATION

Town of Indian River Shores

COMBINING STATEMENT OF PLAN ASSETS & CHANGES IN ASSETS

Fiscal year ended September 30, 2012

	DEFINED BENEFIT POLICE & FIRE EMPLOYEES	DEFINED BENEFIT GENERAL EMPLOYEES	PUBLIC SAFETY OFFICERS STATE SHARE ACCOUNT	DEFINED CONTRIBUTION	TOTAL PENSION TRUST FUNDS
Beginning reconciled balance-Plan Net Assets September 30, 2011	\$ 6,745,538	\$ 285,595	\$ -	\$ 405,915	\$ 7,437,048
Reclass assets	(582,865)	-	582,865	-	-
Additions: Employee contributions	179,620	7,949	-	-	187,569
Employer contributions	1,064,160	47,940	-	42,975	1,155,075
State share plan contributions	-	-	164,907	-	164,907
Subtotal additions	1,243,780	55,889	164,907	42,975	1,507,551
FMPTF investment income	1,105,369	50,093	100,529	87,007	1,342,998
Net additions	2,349,149	105,982	265,436	129,982	2,850,549
Deductions: Administrative expenses & quarterly fees	(24,328)	(3,230)	(1,194)	(1,973)	(30,725)
Subtotal deductions	(24,328)	(3,230)	(1,194)	(1,973)	(30,725)
Distributions paid out	(316,320)	(48,395)	(162,920)	-	(527,635)
Ending reconciled balance-Plan net assets September 30, 2012	<u>\$ 8,171,174</u>	<u>\$ 339,952</u>	<u>\$ 684,187</u>	<u>\$ 533,924</u>	<u>\$ 9,729,237</u>

Town of Indian River Shores

COMBINING STATEMENT OF PLAN ASSETS & CHANGES IN ASSETS

Fiscal year ended September 30, 2011

	DEFINED BENEFIT POLICE & FIRE SHARE PLAN	DEFINED BENEFIT GENERAL EMPLOYEES	STATE SHARE ACCOUNT	DEFINED CONTRIBUTION	TOTAL PENSION TRUST FUNDS
Beginning reconciled balance-Plan Net Assets September 30, 2010	\$ 5,554,954	\$ 289,306	\$ 473,947	\$ 364,119	\$ 6,682,326
Plan asset transfer	473,947	-	(473,947)	-	-
Additions: Employee contributions	147,483	7,475	-	-	154,958
Employer contributions	569,908	34,961	-	37,667	642,536
State share plan contributions	139,516	-	-	-	139,516
Subtotal additions	856,907	42,436	-	37,667	937,010
FMPTF investment income	41,141	3,095	-	5,891	50,127
Net additions	898,048	45,531	-	43,558	987,137
Deductions: Administrative expenses & quarterly fees	(15,311)	(847)	-	(1,762)	(17,920)
Subtotal deductions	(15,311)	(847)	-	(1,762)	(17,920)
Distributions paid out	(166,100)	(48,395)	-	-	(214,495)
Ending reconciled balance-Plan net assets September 30, 2011	\$ 6,745,538	\$ 285,595	\$ -	\$ 405,915	\$ 7,437,048

Town of Indian River Shores, Florida

SCHEDULE OF PROPERTY TAX VALUATIONS, LEVIES AND COLLECTIONS

Last Five Fiscal Years
(Unaudited)

<u>Fiscal Year</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate in Mills</u>	<u>Amount Levied</u>	<u>Amount Collected (*)</u>	<u>Percent Collected</u>
2008	\$ 2,532,506,193	1.3923	\$ 3,526,008	\$ 3,418,898	97%
2009	\$ 2,574,214,967	1.3923	\$ 3,584,079	\$ 3,468,008	97%
2010	\$ 2,507,818,924	1.3923	\$ 3,491,636	\$ 3,384,579	97%
2011	\$ 2,455,523,093	1.4731	\$ 3,617,231	\$ 3,410,519	94%
2012	\$ 2,364,986,600	1.4731	\$ 3,629,907	\$ 3,486,300	96%

* Includes delinquent collections

See independent auditor's report.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Indian River Shores, Florida (the "Town") as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

February 28, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

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

We have audited the financial statements of the Town of Indian River Shores, Florida, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 28, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters dated February 28, 2013, which should be considered in conjunction with this management letter.

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

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

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Town of Indian River Shores was established by and is governed per the special law 54-1407 Laws of Florida. Additional legal entity disclosures are included in Note A-1 of the financial statements. The Town of Indian River Shores does not have any component units.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Indian River Shores, did *not* meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town of Indian River Shores for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Indian River Shores' financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

February 28, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Prior Year Management Recommendations - Corrected

11-01 Reversal of accrual from prior year
Significant Deficiency

Criteria: Accruals should clear in the subsequent period.

Condition: During testing of “Due from other Government Units” account detail it was identified that the prior year accrual for \$3,939 in the Road and Bridge Fund had not been reversed in the current year.

Cause: A process for ensuring all accruals are made and reversed was not available.

Effect: The receivables and revenues were materially overstated in the Road and Bridge fund by \$3,939.

Auditors’ recommendation: We recommend a process for all accruals at the period close to be recorded and then reversed at the beginning of the next period.

As of September 30, 2012, this issue has been resolved.

11-02 Public safety policy for 112 bi-weekly work hours
Control Deficiency

Criteria: Policy should be available to provide guidance to all employees as to the employee’s working requirements and benefits provided.

Condition: During the walk-through of the payroll process we found that certain public safety department employees were being paid for 112 hours bi-weekly regardless of the hours worked.

Cause: The practice was in place prior to 1990 and is not supported by a policy, union contract or authorization by the Town Council.

Effect: Possible misunderstanding as to the employees the practice is available to, possible misuse of the practice by employees working less than the set 112 hours bi-weekly.

Auditors’ recommendation: We recommend that a policy be implemented outlining the employees the practice applies to and the manor in which it will be monitored to prevent abuse.

As of September 30, 2012, this issue has been resolved.

11-03 Public safety policy for supervisor exchange shifts
Control Deficiency

Criteria: Policy should be available to provide guidance to all employees as to the employee’s working requirements and benefits provided.

Prior Year Management Recommendations - Corrected (continued)

11-03 Public safety policy for supervisor exchange shifts (continued)

Condition: During the walk-through of the payroll process we found that certain public safety department supervisors (non-union) were exchanging scheduled shifts in accordance with the union contract.

Cause: Public safety department supervisors at one time were covered by the union contract which authorizes shift exchanges. At some time prior to 1990, public safety department supervisors became non-union and were not covered by the union contract for the shift exchanges practice. As a courtesy to these supervisors', the practice was continued without a formal policy.

Effect: Possible abuse of the practice with no approvals and monitoring of the practice.

Auditors' recommendation: We recommend that a policy be implemented outlining the employees the practice applies to and the manor in which it will be monitored to prevent abuse.

As of September 30, 2012, this issue has been resolved.

11-04 Prior approval for the sale/disposal of assets with net book value greater than \$1,000
Control Deficiency

Criteria: Government's establish ordinances and policies to provide guidance in documenting and recording transactions.

Condition: During asset disposal testing we found that three of the three assets sold/disposed of did not have the consent of the mayor and authorization from the Town Council for assets with net book value greater than \$1,000.

Cause: The Town's ordinances and policies are not reviewed annually for appropriateness to the Town's needs.

Effect: Assets were sold/disposed of without proper authorization per the ordinance.

Auditors' recommendation: We recommend the Town should implement a process for reviewing ordinances and policies for appropriateness to the Town's needs annually.

As of September 30, 2012, this issue has been resolved.

Current Year Management Recommendations

There were no findings or recommendations in the current year.