

January 18, 2013

To the Honorable Mayor and City Commissioners
City of Holmes Beach, Florida

We have audited the financial statements of the City of Holmes Beach for the year ended September 30, 2012. We have issued our report dated January 18, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 30, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Accounting Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Depreciation

Fixed assets are depreciated over their estimated useful lives. There is both an accumulated amount of depreciation and current year expense as part of these financial statements. Fixed assets and related depreciation are recorded only in the government wide financial statements.

Other Post Employment Benefits Accrual

A long-term liability in the amount of \$59,465 has been recorded in the government wide financial statements. In addition, the actuary calculated the total Unfunded Actuarial Accrued Liability to be \$166,418 to be amortized over 30 years. This is based on the actuarial valuation from October 1, 2009.

We evaluated the key factors and assumptions used to develop the depreciation and other post employment benefits accrual in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Note 1 describes the City's significant accounting policies.

Note 3 describes the City's capital assets.

Note 6 describes the City's retirement plans.

Note 7 describes the City's other post-employment benefit plan.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 18, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information on pages 39-41 accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Management, the Mayor and the City Commissioners of the City of Holmes Beach and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Christopher, Smith, Leonard,
Bristow + Stanell, P.A.*
**CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P.A.**

CITY OF HOLMES BEACH, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

**CITY OF HOLMES BEACH, FLORIDA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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**CITY OF HOLMES BEACH, FLORIDA
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and City Commission
City of Holmes Beach, Florida**

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Holmes Beach, 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 a report dated January 18, 2013, on our consideration of the City of Holmes Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the supplemental schedules of funding progress and employer contributions included on pages 3-9, 36, and 37 - 38 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 City of Holmes Beach's financial statements, as a whole. The supplemental schedules on pages 39 through 41 as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental 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.

*Christopher, Smith, Leonard,
Bristow + Stanell, P. A.*
CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P. A.

January 18, 2013
Bradenton, Florida



City of Holmes Beach

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Holmes Beach, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. Readers should consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$12,744,984 (*net assets*).
- The City's total net assets increased by \$247,235. The increase is primarily attributable to an increase in capital assets related to the completion of various capital projects, offset by a decrease in cash and investments, along with the payment of accounts payable and compensated absences.
- As of the close of the current fiscal year, the City's governmental fund reported ending fund balance of \$4,876,389, a decrease of \$570,901 in comparison with the prior year. Of this total amount, \$951,863 is restricted, \$2,362,500 is assigned for emergency purposes, and \$1,561,826, is *available for spending* at the City's discretion (*unassigned fund balance*).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Holmes Beach, Florida's basic financial statements. The City's basic financial statements comprise 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.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City'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 City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by ad valorem taxes, and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The City is engaged in only governmental activities.

The government-wide financial statements can be found on pages 10 and 11 of this report.

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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City utilizes governmental funds and fiduciary funds.

Governmental funds. Governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using the modified accrual method of accounting and the current financial resources focus. As a result, long-term assets and liabilities are not included. The City uses a general fund. The General Fund is the general operating fund. All general tax revenues are accounted for in this fund. From this fund all general operating expenditures and capital expenditures are paid.

A reconciliation to facilitate the comparison between the governmental fund financial statements and the government-wide financial statements is presented.

The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 to 15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and follow the accrual method of accounting. The City's sole fiduciary fund is a pension trust fund used to account for the Chapter 185 defined benefit pension fund. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Holmes Beach, Florida's own programs.

The basic fiduciary fund financial statements can be found on pages 16-17 of this report.

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. The notes to the financial statements begin on page 18 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Holmes Beach, Florida, assets exceeded liabilities by \$12,744,984 at the close of the most recent fiscal year.

A large portion of the City's net assets \$8,161,564 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens within the boundaries of the City; consequently, these assets are *not* available for future spending. The City also had significant assets in cash and investments at year-end. Investments are held in Qualified Public Depositories, or the State Local Government Surplus Trust Fund as allowed by Florida Statutes.

A condensed statement of net assets at September 30, 2012 with comparative balances for September 30, 2011 follows:

	Net Assets	
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 5,014,791	\$ 5,835,225
Capital assets	8,161,564	7,370,466
Total assets	<u>13,176,355</u>	<u>13,205,691</u>
Long-term liabilities outstanding	292,969	320,007
Other liabilities	<u>138,402</u>	<u>387,935</u>
Total liabilities	431,371	707,942
Net assets:		
Invested in capital assets, net of related debt	8,161,564	7,370,466
Restricted	951,863	1,045,637
Unrestricted	<u>3,631,557</u>	<u>4,081,646</u>
Total net assets	<u>\$ 12,744,984</u>	<u>\$ 12,497,749</u>

An additional portion of the City's net assets, \$951,863 represents resources from storm water drainage fees and transportation taxes that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$3,631,557 may be used to meet the City's ongoing obligations to citizens and creditors.

The City's net assets increased by \$247,235 during the current fiscal year.

The following is a summary of the information presented in the statement of activities as of September 30, 2012 with comparative totals for the year ended September 30, 2011:

Changes in Net Assets

	<u>Governmental Activities</u> <u>2012</u>	<u>Governmental Activities</u> <u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 469,639	\$ 507,252
Operating grants and contributions	10,000	13,750
Capital grants and contributions	<u>516,000</u>	<u>25,076</u>
	995,639	546,078
General revenues:		
Ad valorem taxes	2,085,702	2,095,603
Franchise fees	430,965	448,135
Communication service tax	245,848	236,881
Storm water fees	221,209	220,854
State revenue sharing	136,803	136,199
Sales tax	242,277	303,804
Casualty insurance tax	37,511	33,290
Other taxes	311,212	415,470
Interest income	22,468	15,922
Disposition of assets	3,870	-0-
Miscellaneous	<u>49,530</u>	<u>52,302</u>
Total general revenues	<u>3,787,395</u>	<u>3,958,460</u>
Total Revenues	<u>4,783,034</u>	<u>4,504,538</u>
Expenses:		
General government	762,226	687,558
Public safety	2,072,106	1,950,492
Public works/building department	<u>1,701,467</u>	<u>1,793,048</u>
Total expenses	<u>4,535,799</u>	<u>4,431,098</u>
Increase in net assets	247,235	73,440
Net assets – Beginning	<u>12,497,749</u>	<u>12,424,309</u>
Net assets – Ending	<u>\$ 12,744,984</u>	<u>\$ 12,497,749</u>

The increase in net assets of \$247,235 resulted from an increase in revenues of \$278,496 and an increase in expenses of \$104,701. Charges for services decreased by \$37,613 while operating and capital grants increased by \$487,174. Expenses increased primarily for General Government and Public Safety expenses.

Financial Analysis of the City's Funds

The City utilizes Governmental Funds and a Fiduciary Fund. These include the General Fund and the Police Pension Trust Fund.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's general fund reported an ending fund balance of \$4,876,389, a decrease of \$570,901 in comparison with the prior year. Of this total, \$1,561,826 is *unassigned fund balance*, which is available for spending at the City's discretion. \$2,362,500 is assigned for emergency purposes, \$951,863 is *restricted* for storm water drainage projects, and gas tax roadway expenditure projects, and \$200 is non-spendable for prepaid expenses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 29% of total general fund expenditures, while total fund balance represents 91% of that same amount.

The fund balance of the City's general fund decreased by \$570,901 during the current fiscal year. The revenues increased by \$278,496, resulting from an increase in grants of approximately \$490,00, offset by a decrease of \$150,911 in State and County receipts, a decrease of \$42,695 in licenses and permits, and \$17,170 in franchise fees. The expenditures increase was due to increased grant expenditures related to stormwater projects partially funded by grants.

General Fund Budgetary Highlights

During the year, the General Fund budget was amended to transfer between line items. The total budgeted revenues and expenditures were not amended. The final budgeted revenues were \$4,598,082. The final budgeted expenditures were \$5,887,609. For the current fiscal year, actual revenues exceeded budgeted revenues by \$184,952. This was principally due to higher licenses, permits, franchise fees, and ad-valorem taxes than budgeted. Actual expenditures were less than budgeted expenditures by \$533,674 due mainly to less operating and capital project expenditures than budgeted.

The General Fund budget is presented as required supplementary information on page 36.

Fiduciary Fund

The City's Pension Trust Fund presents a Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets on pages 16 and 17. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations.

As of September 30, 2012, the City's Pension Trust Fund reported fiduciary net assets of \$6,460,318, an increase of \$1,031,898 from the prior year. The main components of the increase were total contributions of \$237,349 and net investment earnings of \$947,132 offset by administrative costs of \$12,970 and benefit payments of \$139,613. This Pension Trust Fund includes only Police Officers. Other employees are included in the State of Florida Retirement System or in a separate Defined Contribution Plan. Beginning October 1, 2006, all non police officer employees hired are automatically enrolled in the State of Florida Retirement System plan.

Capital Assets

The City's investment in capital assets for the year ended September 30, 2012 amounts to \$8,161,564 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and machinery and equipment. The City's investment in capital assets for the current fiscal year increased by \$791,098; comprised of \$1,037,914 of capital additions, \$241,316 of depreciation expense, less \$5,500 of net disposals.

The following is a condensed schedule of capital assets at September 30,:

	<u>Governmental Activities</u> <u>2012</u>	<u>Governmental Activities</u> <u>2011</u>
Land	\$ 931,290	\$ 931,290
Building and improvements	1,348,598	1,400,019
Infrastructure	5,670,873	4,824,385
Machinery and equipment	210,803	214,772
Total (net of depreciation)	<u>\$ 8,161,564</u>	<u>\$ 7,370,466</u>

See note 3 of this report for additional information on the City's capital assets.

Long-Term Obligations

At the end of the current fiscal year, the City had no outstanding long-term debt. The City records a long-term liability for compensated absences and post-employment benefits other than pensions, which were \$233,504 and \$59,465 at September 30, 2012. The compensated absences decreased by \$46,201 due to pay outs as a result of retirements. The post-employment benefits other than pensions increased \$19,163 for the annual pension expenses.

Economic Factors and Next Year's Budgets and Rates

This year the City of Holmes Beach is starting to see a slight increase in property values, which in effect will minimally increase the tax base. The fiscal year 2012-2013 millage rate was held the same as the previous year at 1.7500 mills in a year when the rollback rate was 1.7553 mills. This was an overall 0.3% reduction in taxes for the Holmes Beach property owners. The rollback rate calculation, which is required by Florida Statutes, reflects the millage rate that would be needed to generate the same amount of tax dollar income as received in the prior year.

The fiscal year 2012-2013 budget includes funding for Grassy Pointe Improvements and Maintenance, skate park refurbishing, seawall repairs, and additional monies to continue on with master drainage improvement projects. Again, some cutbacks in operations were required to balance the budget due to revenue reductions, but no major service area cuts were implemented. In this 2012-2013 budget year, salary adjustments were budgeted to include a cost of living adjustment for employees.

Future budgets beyond 2012-2013 are anticipated to continue to be tight as it is anticipated that revenue sources are not quite yet at their lowest. Additionally, although growth and new construction activities were higher than expected in 2011-2012, uncertainty still exists for new construction in these economic times. In December 2012, the City issued a moratorium on construction which will have an additional unforeseen impact on revenues. Also, the state legislature is looking at legislative proposals that could have a possible negative effect on local revenues such as Business Tax Fees and Communication Service Taxes that come back to the City. These revenue challenges will be major impacts on budgets over the next few years as the City tries to balance the needs of residents with available resources. Although positive signs of improvement continue, the economy still is sluggish at best and the Florida economy continues to lag behind the improvement seen elsewhere. Unless the economy starts to improve, which would stimulate the economically sensitive revenues, we need to be diligent about monitoring City expenses.

In spite of these revenue issues, the City has been able to maintain the operational budgets without having to use any emergency cash reserves and still anticipates a good financial outlook due to the City cash balances and the fact that the City has no debt or outstanding financing.

Requests for Information

This financial report is designed to provide a general overview of the City of Holmes Beach, Florida's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City at, City of Holmes Beach, Florida, 5801 Marina Drive, Holmes Beach, Florida 34217.

CITY OF HOLMES BEACH, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	
Unrestricted	\$ 1,494,035
Restricted	951,863
Investments	2,361,170
Due from other governments	207,249
Other receivables	274
Prepaid expenses	200
Capital assets	
Land	931,290
Other capital assets, net of accumulated depreciation	7,230,274
Total Assets	13,176,355
LIABILITIES	
Accounts payable	131,647
Accrued expenses	6,755
Non current liabilities	
Due in less than one year	105,000
Due in more than one year	187,969
Total Liabilities	431,371
NET ASSETS	
Invested in capital assets, net of related debt	8,161,564
Restricted for:	
Storm water drainage	532,944
Restricted for streets and roads	418,919
Unrestricted	3,631,557
TOTAL NET ASSETS	\$ 12,744,984

The accompanying notes are an integral part of these financial statements.

CITY OF HOLMES BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change In Net Assets Total	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
General Government	\$ 762,226	\$ 340	\$ -	\$ 3,000	\$ (758,886)
Public Safety	2,072,106	7,379	10,000	-	(2,054,727)
Public Works	1,701,467	461,920	-	513,000	(726,547)
Total Governmental Activities	<u>4,535,799</u>	<u>469,639</u>	<u>10,000</u>	<u>516,000</u>	<u>(3,540,160)</u>
General Revenues:					
					2,085,702
					430,965
					245,848
					221,209
					136,803
					242,277
					37,511
					311,212
					22,468
					3,870
					49,530
					<u>3,787,395</u>
					247,235
					12,497,749
					<u>\$ 12,744,984</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLMES BEACH, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2012**

	GENERAL FUND
ASSETS	
Cash and cash equivalents	
Unrestricted	\$ 1,494,035
Restricted	951,863
Investments	
Unrestricted	2,361,170
Due from other governments	207,249
Other receivables	274
Prepaid expenses	200
	\$ 5,014,791
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 131,647
Accrued expenses	6,755
TOTAL LIABILITIES	138,402
Fund Balances:	
Nonspendable	200
Spendable:	
Restricted	951,863
Assigned	2,362,500
Unassigned	1,561,826
TOTAL FUND BALANCES	4,876,389
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,014,791

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLMES BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

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

Fund Balance - Governmental Fund	\$ 4,876,389
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds	8,161,564
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds	<u>(292,969)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,744,984</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLMES BEACH, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	GENERAL FUND
REVENUES	
Ad Valorem Taxes	\$ 2,085,702
State and County receipts	972,428
Franchise fees	430,965
Licenses and permits	448,725
Storm water fees	221,209
Interest	22,468
Grants	526,000
Other sources	75,537
Total Revenues	4,783,034
EXPENDITURES	
General government:	
Personal services	421,732
Operating	304,940
Capital outlay	8,060
Total General Government	734,732
Public Safety:	
Personal services	1,822,883
Operating	213,224
Capital outlay	54,843
Total Public Safety	2,090,950
Public Works:	
Personal services	808,946
Operating	744,295
Capital outlay	975,012
Total Public Works	2,528,253
Total Expenditures	5,353,935
NET CHANGE IN FUND BALANCE	(570,901)
FUND BALANCE, October 1, 2011	5,447,290
FUND BALANCE, September 30, 2012	\$ 4,876,389

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLMES BEACH, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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

Net change in fund balance – total governmental fund \$ (570,901)

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.
This is the amount by which capital outlay exceeds depreciation
expense in the current period. 791,098

Some expenditures in the statement of activities do not require the
use of current financial resources and, therefore, are not reported
as expenditures in the general fund. This represents the current
year change in compensated absences and OPEB liabilities. 27,038

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 247,235

The accompanying notes are an integral part of these financial statements.

CITY OF HOLMES BEACH, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND – PENSION TRUST FUND
SEPTEMBER 30, 2012

	<u>POLICE RETIREMENT PLAN</u>
ASSETS	
Investments, at fair value	
Money market funds	\$ 147,893
Bond funds	2,504,916
Equity funds	<u>3,763,323</u>
Net investments at fair value	6,416,132
Employer receivable	42,949
Employee receivable	<u>1,237</u>
Total receivables	44,186
TOTAL ASSETS	<u><u>6,460,318</u></u>
NET ASSETS	
Held in trust for pension benefits	<u><u>\$ 6,460,318</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLMES BEACH, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND – PENSION TRUST FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	POLICE RETIREMENT PLAN
ADDITIONS	
CONTRIBUTIONS:	
Employee contributions	\$ 35,538
Employer contributions	163,873
State contributions	37,511
Donations	427
Total Contributions	237,349
 INVESTMENT INCOME:	
Interest	162,789
Net unrealized gain (loss) in fair value of investments	552,814
Gain (loss) on sale of investments	279,356
Total Investment Earnings	994,959
 Less investment expense	47,827
 Net investment income	947,132
 TOTAL ADDITIONS	1,184,481
 DEDUCTIONS	
Administrative expenses	12,970
Benefits paid	139,613
 TOTAL DEDUCTIONS	152,583
 CHANGE IN NET ASSETS	1,031,898
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	5,428,420
End of year	\$ 6,460,318

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the City of Holmes Beach, Florida:

- A. **REPORTING ENTITY** – The City of Holmes Beach was incorporated in 1950 with the power to exercise all necessary municipal services. The present charter, which was last revised in 1997, currently provides for an elected Mayor and a five-member Commission. The legal authority for the City is in the Laws of Florida Chapter 61-2268 and Chapter 165 of the Florida Statutes.

The financial statements include all the organizations, functions and activities of the City of Holmes Beach, required by the Governmental Accounting Standards Board, Codification of Governmental Accounting and Financial Reporting Standards. The criteria used in determining inclusion are:

- a. Manifestation of oversight –
 - 1) Financial interdependency
 - 2) Selection of governing authority
 - 3) Designation of management
 - 4) Ability to significantly influence operations
 - 5) Accountability for fiscal matters
- b. Scope of public service –
 - 1) Benefits of reporting entity and/or its residents
 - 2) Geographic boundaries
- c. Special financing relationships

The financial statements include the funds of the police pension plan. Designation of management and ability to significantly influence operations were the criteria used in determining its inclusion. The City has no other component units.

- B. **BASIS OF PRESENTATION** – The City's basic financial statements include Government-wide (which reports the City as a whole) and Fund financial statements (which report only on the General and Fiduciary Funds). The Basic Financial Statements present only governmental activities, as the City conducts no business type activities.

BASIS OF ACCOUNTING: BASIC FINANCIAL STATEMENTS – GOVERNMENT WIDE STATEMENTS– The Government-Wide Financial Statements (Statement of Net Assets and Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. BASIS OF PRESENTATION - CONTINUED

Basis of Accounting Basic Financial Statements - Government Wide statements - Continued

statements exclude the City's fiduciary activities (pension trust fund.) For the most part, interfund activity has been removed from these statements. The City's net assets are reported in three parts (as applicable): invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges for services including licenses and permits, fines and other related revenues and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS - The City's accounts are organized on the basis of funds, which are self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The City utilizes governmental funds, which follow the modified accrual basis of accounting. Under this method, revenues are recorded when they become 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. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a fund liability is incurred. The City also uses a pension trust fund. The City reports the following governmental fund, which is a major fund:

GOVERNMENTAL FUND

GENERAL FUND - The General Fund is the general operating fund of the City. All general tax revenues are accounted for in this Fund. From the general fund are paid the general operating expenditures and capital expenditures of the City.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. BASIS OF PRESENTATION – CONTINUED

FIDUCIARY FUNDS

PENSION TRUST FUND – Pension trust funds are accounted for on the accrual basis since capital maintenance is critical. Employer and participant contributions are recognized in the period in which the contributions are due. Retirement benefits and refunds are recognized when due and payable in accordance with the plan.

- C. CAPITAL ASSETS** – Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life of longer than one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal repair and maintenance that do not add to the value of the asset or extend the useful life of the asset are expensed as incurred. The City has elected to report general infrastructure assets on a prospective basis only.

Property, plant and equipment of the City are depreciated on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and infrastructure	40
Improvements	20
Vehicles	5
Furniture, fixtures and equipment	5-10

- D. LONG-TERM OBLIGATIONS** – In the government-wide financial statements, other long-term obligations (compensated absences and OPEB Liability) are reported as liabilities. In the fund financial statements, no long-term obligations are reported as they are not due to be paid from current financial resources.

E. BUDGETARY INFORMATION

Annual budgets are generally adopted on a basis consistent with U.S. generally accepted accounting principles for the general fund. Expenditures should not exceed total appropriations. All annual appropriations lapse at fiscal year end. Budget amendments are approved by the City Commission.

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012.**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- F. PROPERTY TAXES – Property taxes become due and payable on November 1st of each year. The County tax collector remits the City's portion as such revenues are received. The City collects nearly all of its tax revenue during the period November 1 through April 1, at which time the property taxes become delinquent. The key dates in the property tax cycle are as follows:

Assessment roll validated	July 1
Millage resolution approved	September 30
Beginning of fiscal year for which taxes have been levied	October 1
Tax bills rendered and due	November 1
Property taxes payable: Maximum discount	November 30
Delinquent	April 1
Tax certificates sold	May 31

Property taxes are recognized as revenue in the fiscal year for which the taxes have been levied to the extent they result in current receivables. Under the system outlined above, no material amount of taxes is receivable after the end of the fiscal year.

- G. ESTIMATES – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. NET ASSETS

Net assets are reported in three parts as applicable: Invested in capital assets, net of related debt; restricted and unrestricted. When both restricted and unrestricted resources are available, restricted resources are used first, and then unrestricted resources, as they are needed.

I. FUND BALANCE

The City follows Government Accounting Standards Board (GASB) Statement 54. GASB 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. FUND BALANCE - CONTINUED

imposed upon the use of the resources reported in governmental funds. Fund balance classifications are Nonspendable and Spendable. Spendable is then further classified as Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance.

The City classified governmental fund balance as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Spendable Fund Balance:

- **Restricted** - includes amounts that can be spent only for specific purposes because of State or Federal laws or enabling legislation, or which are externally restricted by providers, such as creditors or grantors.
- **Committed** - includes amounts that can be spent only for specific purposes that are approved by a formal action of the Board of Commissioners through a resolution or the budget process.
- **Assigned** - includes amounts designated for a specific purpose by the Board of Commissioners through a resolution or the budget process, which are neither restricted nor committed.
- **Unassigned** - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The City uses restricted amounts first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City does not have a formal minimum fund balance policy.

CITY OF HOLMES BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. FUND BALANCE – CONTINUED

	<u>General Fund</u>
Non Spendable	\$ 200
 <u>Spendable:</u>	
<u>Restricted:</u>	
Stormwater utility fees for authorized projects	532,944
Fifth cent gas tax restricted for road expenditures	<u>418,919</u>
	<u>951,863</u>
 Assigned (for emergency contingencies)	 2,362,500
Unassigned	<u>1,561,826</u>
 Total Fund Balances	 <u>\$ 4,876,389</u>

- I. INTERFUND RECEIVABLES/PAYABLES – Interfund receivables/payables arise from temporary interfund transfers. When a fund has an interfund receivable and an interfund payable to the same fund, the amounts are recorded in separate accounts. Internal activity and balances between governmental funds has been eliminated in the government-wide statement of net assets.

NOTE 2 – CASH AND INVESTMENTS

The City's investment policies are governed by State Statutes in addition to its own investment policies. City monies are authorized to be invested in the following:

- Local Government Surplus Funds Trust Fund (LGSF) or any intergovernmental investment pool authorized through the Florida Interlocal Cooperation Act.
- S.E.C. registered money market funds with the highest credit quality rating from a certified qualified public depository.
- Direct Obligations of the U.S. Treasury.
- Interest bearing time deposits or savings accounts in State Certified Qualified Public Depositories as defined in Section 280.02 Florida Statutes.

All City cash accounts are in Qualified Public Depositories.

At September 30, 2012, the City's general fund cash and investments were fully insured or collateralized or held in the City's name pursuant to these guidelines.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

The City has investments with the Local Government Surplus Trust Funds Investment Pool (LGIP), now known as Florida PRIME, and the Fund B Surplus Funds Trust Fund (Fund B), which are administered by the Florida State Board of Administration. The City's investments in the Pools are through shares owned in the funds and not the underlying investments. The Florida PRIME is considered a 2a7 like pool. The account balance in the Florida PRIME approximates its fair value. Fund B is considered a fluctuating net asset value (NAV) pool with a fair value factor of .94896811 at September 30, 2012. The fair value of the City's investments in Fund B is derived by taking the account balance multiplied by the NAV factor. The Florida PRIME investments are subject to overnight withdrawal. There is a risk of loss of interest on the investments if there are changes in the underlying indexed base.

Interest Rate Risk

The City does not have a specific policy concerning interest rate risk. The Florida PRIME has a weighted average days to maturity of 39 days. Fund B has an estimated weighted average life of 4.08 years.

Florida PRIME invests in top-tier, money market assets of the highest quality and has a Standard and Poors rating of AAAM. Fund B consists of assets that have defaulted, are in default or have extended payout times, or are subject to potentially elevated credit risk. Fund B is not rated by a nationally recognized statistical rating agency.

At September 30, 2012, the City had investments in the Florida PRIME with a fair value of \$2,327,925. Fair value of investments held in Fund B as of September 30, 2012 was \$35,033, including an unrealized loss of \$1,788. For further information regarding the Local Government Surplus Trust Funds Investment Pool, readers should refer to the financial statements and disclosures of the Florida State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool.

Restricted cash and investments in the General Fund represents funds for storm water fees and unspent local 5 cent gas tax collections which are required to be used for storm water improvements or road maintenance or improvement expenditures.

The City of Holmes Beach Police Pension Fund's investments which are recorded at market value are enumerated in NOTE 6.

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 931,290	\$ -0-	\$ -0-	\$ 931,290
Total capital assets, not being depreciated	<u>931,290</u>	<u>-0-</u>	<u>-0-</u>	<u>931,290</u>
Capital assets being depreciated:				
Buildings and improvements	1,909,090	-0-	-0-	1,909,090
Infrastructure	5,434,108	967,342	-0-	6,401,450
Vehicles	584,150	47,924	68,500	563,574
Machinery and equipment	678,236	22,648	69,831	631,053
Total capital assets being depreciated	<u>8,605,584</u>	<u>1,037,914</u>	<u>138,331</u>	<u>9,505,167</u>
Less accumulated depreciation for:				
Buildings and improvements	509,071	51,421	-0-	560,492
Infrastructure	609,723	120,854	-0-	730,577
Vehicles	467,908	34,918	63,000	439,826
Machinery and equipment	579,706	34,123	69,831	543,998
Total accumulated depreciation	<u>2,166,408</u>	<u>241,316</u>	<u>132,831</u>	<u>2,274,893</u>
Total capital assets, being depreciated, net	<u>6,439,176</u>	<u>796,598</u>	<u>5,500</u>	<u>7,230,274</u>
Governmental activities capital assets, net	<u>\$ 7,370,466</u>	<u>\$ 796,598</u>	<u>\$ 5,500</u>	<u>\$ 8,161,564</u>

Depreciation expense was allocated as follows: General Government \$39,254, Public Safety \$51,999 and Public Works \$150,063.

NOTE 4 - RECONCILIATION OF GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS -

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The reconciliation between the net changes in fund balances - total governmental funds as reported in the statement of revenues, expenditures and changes in fund balances, and the changes in net assets as reported in the statement of activities is included on page 15 of the basic financial statements. One line in that reconciliation explains that "Governmental Funds report capital outlays as expenditures."

CITY OF HOLMES BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 4 - RECONCILIATION OF GOVERNMENT -WIDE AND FUND FINANCIAL STATEMENTS - CONTINUED

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of the difference is shown below:

Capital outlay	\$ 1,037,914
Depreciation expense	(241,316)
Loss on disposition of assets	<u>(5,500)</u>
	<u>\$ 791,098</u>

NOTE 5 - Long-Term Liabilities

City policy grants employees annual and sick leave in varying amounts. Annual leave is earned and used on a calendar year basis. Accumulated sick leave benefits are granted only upon retirement. The expenses are not expected to be liquidated with expendable financial resources so they have not been included as a fund liability.

During the year ended September 30, 2012, the City's long-term obligations changed as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 279,705	\$ 210,975	\$ 257,176	\$ 233,504	\$ 100,000
OPEB liability	<u>40,302</u>	<u>19,163</u>	<u>-0-</u>	<u>59,465</u>	<u>5,000</u>
	<u>\$ 320,007</u>	<u>\$ 230,138</u>	<u>\$ 257,176</u>	<u>\$ 292,969</u>	<u>\$ 105,000</u>

NOTE 6 - RETIREMENT PLANS

The City provides retirement benefits to employees under three pension plans.

- Florida Retirement System - for employees other than police officers hired prior to January 1, 1996 or after October 1, 2006 (and those previous employees electing coverage as of October 1, 2006).
- A Defined Contribution Pension Plan - for non-police officers hired between January 1, 1996 and September 30, 2006.
- A Defined Benefit Plan - for Police officers.

A. FLORIDA RETIREMENT PLAN

(1) Plan Description

All full-time employees of the City are covered by the State of Florida Retirement System (FRS), which is administered by the Department of Management Services, Division of Retirement under the Authority of Article X, Section 14 of the State Constitution and Florida Statutes,

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 6 – RETIREMENT PLANS – CONTINUED

(1) Plan Description – Continued

Chapter 112 and 121. The system is a non-contributory, defined benefit, cost-sharing multiple-employer PERS (Public Employee Retirement System). The pension plan provides pension benefits and disability benefits.

Plan Provisions

If first employed prior to July 1, 2001: Normal retirement age for “regular” employees is 62 or 30 years of service and vesting occurs after 6 years of creditable service. Normal retirement age for “special risk” employees is 55 or 25 years of service and vesting occurs after 6 years of creditable service.

If first employed on or after July 1, 2011: Normal retirement age for “regular” employees is 65 or 33 years of service and vesting occurs after 8 years of creditable service. Normal retirement age for “special risk” employees is 60 or 30 years of service and vesting occurs after 8 years of creditable service.

“Regular” employees who retire at age 62 and “special risk” employees who retire at age 55 are entitled to a blended rate ranging from 1.6% to 3% of their final, five-year average compensation times the number of years they were members of the system. The final, five-year average compensation is the average salary of the employee during the highest five years of employment.

(2) Contributions Required and Made

Since July 1, 2011 both employees and employers have been required to make contributions. The City’s required employer contributions for the year ended September 30, 2012 ranged between 14.10% – 14.90% for special risk employees and 4.91% – 5.18% for regular employees. Required contributions by employees of both the “regular” class and “special risk” class were 3.00%. Current year’s covered payroll, which equals total payroll, was \$877,445. Current year contributions were \$61,595, including employee contributions of \$20,041.

Contributions for the year ended September 30, 2011, which equaled required contributions, were \$76,499, which approximated 9.4% of covered payroll. Contributions for the year ended September 30, 2010, which equaled required contributions, were \$81,157, which approximated 10.4% of covered payroll.

(3) Funding Status and Progress

A separate plan financial statement is issued by the State Division of Retirement for the plan year, which ends on June 30, which provides detail on the plan funding status and progress. The report may be obtained by writing to the Florida Division of Retirement, 2639 Monroe Street, Building C, Tallahassee, Florida 32399-1560.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012.

NOTE 6 – RETIREMENT PLANS – CONTINUED

(4) Post Employment Benefits

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administrated retirement systems in paying health insurance costs. During the 2011–2012 fiscal year, the HIS program was funded by required contributions consisting of 1.11% assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in the State Retirement Plan footnote above. Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

During 2011–2012 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

B. DEFINED CONTRIBUTION PLAN

In resolution 95–10 and ordinance 96–1 the City revoked its membership in the Florida Retirement System for employees hired on or after January 1, 1996, in accordance with Chapter 95–338 of the laws of Florida. Ordinance 96–4 established a retirement plan for non-police officers hired after January 1, 1996.

In resolution 06–10 and ordinance 06–06 the City reinstated its membership in the Florida Retirement System for general employees. All employees (excluding police officers) hired on or after October 1, 2006 are enrolled under the FRS plan. Employees who were enrolled in the defined contribution public employee retirement system became eligible to convert to the Florida Retirement System up until October 1, 2006.

Employees that did not convert to the FRS plan continue under the single-employer, defined contribution public employee retirement system. Total payroll covered by the plan was \$212,958.

The plan requires City contributions of 9% of member payroll. Employees are vested 50% after five years and ten percent per year thereafter with full vesting after 10 years. Forfeitures are used to reduce employer contributions. Employees may voluntarily contribute up to 10% of their compensation to the plan and are fully vested in these contributions.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012..

NOTE 6 - RETIREMENT PLANS - CONTINUED

For the period ended September 30, 2012 there was \$18,318 of City contributions. No employees contributed to the plan. The plan is administered by the Florida Municipal Pension Trust Fund. As of September 30, 2012, membership consisted of 5 employees.

C. CITY OF HOLMES BEACH MUNICIPAL POLICE OFFICERS PENSION TRUST FUND (POLICE RETIREMENT FUND)

The authority under which the Police Retirement Plan benefit provisions and employer and employee obligations to contribute was established under the authority of the City ordinance establishing the police pension fund. The ordinance was restated in full in September of 1997. The plan was amended by Ordinances 00-04, 02-03, 06-03, 07-01, 09-05, and 11-01. Ordinance 11-01 restated the plan in full in July of 2011.

Summary of Significant Accounting Policies

The City's section 185 pension plan is accounted for in the accompanying financial statements as a pension trust fund. Plan administrative costs are paid by the plan. The City's Pension Board has the authority to amend or extend the provisions of the plan. The plan is administered by the Pension Board. Salem Trust Company is the Asset Custodian.

Basis of Accounting - The Police Retirement Plan's financial statements are prepared using 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 employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Asset Valuation - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Plan Investments

Plan investments are held by the Salem Trust Company. The total market value was \$6,416,132, and the total cost was \$5,735,008 at September 30, 2012.

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 6 - RETIREMENT PLANS - CONTINUED

As of September 30, 2012, the asset allocations are as follows:

	<u>Percent of Total</u>
Money Market Funds	1.99
U.S. Treasury Obligations	4.63
U.S. Government Agencies	16.44
Corporate Bonds	17.10
Municipal Obligations	1.00
Common Equity Securities	44.34
Equity Mutual Funds	<u>14.50</u>
	<u>100.00</u>

Interest Rate Risk

The Treasury Obligations have interest rates between .375% and 3.75% with maturities from 2013 to 2042. U.S. Government Agencies have interest rates between .202% and 6.0% with maturities from 2013 to 2042. Corporate bonds have interest rates between .608% and 7.110% with maturities between 2013 and 2040. Municipal obligations have interest rates between 4.019% and 5.2% with maturities between 2019 and 2025.

Benefit Provisions

Retirement - Effective October 1, 1997, a member may retire at age 55 and the completion of 10 years of Credited Service, or 25 years of Credited Service regardless of age, whichever is earlier. The pension benefit is 3.25% of the average final compensation for each year of credited service not to exceed 30 years. The benefits for members who retire on or before June 13, 2006 will provide a 2 percent per year automatic increase on October 1st for each of the first 10 years, with level payments thereafter. Members retiring after June 13, 2006 will receive annual adjustments of 2 percent per year for life.

Effective August 11, 2009, under Ordinance 09-05, all future normal retirees shall receive an additional supplemental monthly benefit of \$5 per month for each year of credited service payable for the life of the retiree.

Benefits are available for early retirement at age 50 and completion of 10 years of vesting service. The pension benefit is reduced by a formula for each year retirement precedes the normal retirement date.

Death and Disability - Effective October 1, 1997, a service incurred disability benefit provides for 42% of the Average Final Compensation (AFC) for members with fewer than 5 years of service, 51% of AFC for members with between 5 and 10 years of service, and 60% of AFC after 10 years of service. The non-service incurred disability benefit provides the accrued benefit but not to exceed 60% of the AFC.

CITY OF HOLMES BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 6 - RETIREMENT PLANS - CONTINUED

Plan Descriptions and Contribution Information

The Police Retirement Plan is a single employer, public employee retirement system (PERS) defined benefit plan and is accounted for in the accompanying financial statements as a Pension Trust Fund. Participation is mandatory (a condition of employment) for all full-time policemen employed by the City. Total payroll covered by the plan for the year was \$592,307 of a total City payroll of \$1,926,526. Total required contributions by the City and State were 34%, which amounted to \$201,384. Employer contributions made by the City for the year were \$163,873 equivalent to 27.7% of the basic annual active member payroll of \$592,307. State contributions totaled \$37,511. Required contributions were 27.6%, net of state contributions. Employee contributions of 6% of basic annual compensation are required and were made in the amount of \$35,538. Basic member payroll subject to contributions includes base salary exclusive of overtime, plus incentives.

Funded Status and Funding Progress

The funded status of the Police Retirement Plan as of October 1, 2012, the most recent actuarial valuation date, is as follows:

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 PERCENTAGE OF COVERED PAYROLL ((b-a/c)
\$ 6,137,816	\$ 6,951,226	\$ 813,410	88.30%	\$ 539,468	150.78%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	10/01/12
Actuarial cost method	Frozen Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years (as of 10/1/12)
Asset valuation method	Market

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 6 - RETIREMENT PLANS - CONTINUED

Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	6.0%
COLA - Post Retirement	2.0%

* Includes inflation at 3.0%

Retirees and beneficiaries receiving benefits	8
Terminated plan members entitled to, but not yet receiving, benefits	2
Active plan members	<u>11</u>
Total	<u>21</u>

Three Year Trend Information

Year Ending	Annual Pension Cost APC	Percentage of APC* Contributed	Net Pension Obligation
09/30/12	\$ 201,829	100%	\$ (5,554)
09/30/11	\$ 227,204	100%	\$ (5,989)
09/30/10	\$ 222,317	100%	\$ (6,469)

Development of the Net Pension Obligation (NPO)

This municipal Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the sponsor has been funding the actuarially determined required contribution for all years from October 1, 1987, through the transition date, October 1, 1997. Thus the NPO on October 1, 1997, was -0-.

The development of the Net Pension Obligation is as follows:

	<u>09/30/10</u>	<u>09/30/11</u>	<u>09/30/12</u>
Actuarially Determined Contribution (A)	\$ 221,870	\$ 226,724	\$ 201,385*
Interest on NPO	(518)	(485)	(449)
Adjustment to (A)	<u>965</u>	<u>965</u>	<u>893</u>
Annual Pension Cost	222,317	227,204	201,829*
Contributions Made	<u>221,874</u>	<u>226,724</u>	<u>201,394</u>
Increase to NPO	443	480	435
NPO Beginning of Year	<u>(6,912)</u>	<u>(6,469)</u>	<u>(5,989)</u>
NPO End of Year	<u>\$ (6,469)</u>	<u>\$ (5,989)</u>	<u>\$ (5,554)</u>

* Beginning September 30, 2012, this includes both City and State Contributions.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - Pursuant to the provision of Section 112.0801, Florida Statutes, retired Police Officers and General Employees, as well as their dependents, are permitted to remain covered under the City's medical plans as long as they pay the premium not exceeding the rate developed by blending the claims experience of all plan members for the plan and coverage elected. There were 38 participants in the census used for the actuarial calculation.

The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the 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.

Funding Policy - Currently, the City's OPEB benefits are unfunded. There is no separate Trust Fund or equivalent arrangement into which the City would make contributions to advance-fund the obligation, as it does for its pension plans. Therefore, the ultimate subsidies which are provided over time are financed directly by general assets of the City, which are invested in short-term fixed income instruments according to its investment policy. For the fiscal year ended September 30, 2012, the City provided estimated contributions of \$9,420 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees.

Part of the City's periodic contribution to the Florida Retirement System (FRS) on behalf of some general employees is a contribution toward the Health Insurance Subsidy (HIS) managed by FRS. Currently, HIS provides eligible employees with a lifetime benefit equal to \$5 per month per year of service (up to maximum of \$150 per month) after they retire, toward the payment of any insurance-related premiums.

The State of Florida is treating this program as a Cost-Sharing Multiple-Employer defined benefit pension plan like FRS, rather than being classified as an Agent Multiple-Employer defined benefit OPEB plan. Accordingly, the State considers the HIS program to be reported pursuant to GASB Statement No. 27.

**CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012.**

NOTE 7 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Annual OPEB Cost and Net OPEB Obligations - The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal Cost (service cost for one year)	\$ 16,680	\$ 16,680	\$ 16,680
Amortization of Unfunded Actuarial Accrued Liability	9,254	9,254	9,254
Interest on Normal Cost and Amortization	<u>3,368</u>	<u>2,257</u>	<u>1,037</u>
Annual Required Contribution (ARC)	29,302	28,191	26,971
Interest on NOO	1,612	844	-0-
Adjustment to (ARC)	<u>(2,331)</u>	<u>(1,220)</u>	<u>-0-</u>
Annual OPEB Cost (Expense)	28,583	27,815	26,971
Estimated Employer Contributions	(9,420)	(8,603)	(5,881)
Interest on Employer Contributions	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Estimated Increase (decrease) in NOO	19,163	19,212	21,090
Estimated NOO at Beginning of Year	<u>40,302</u>	<u>21,090</u>	<u>-0-</u>
Estimated NOO at End of Year	<u>\$ 59,465</u>	<u>\$ 40,302</u>	<u>\$ 21,090</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2012 was as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Estimated Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Estimated Net OPEB Obligation</u>
9/30/10	\$ 26,971	\$ 5,881	21.80%	\$ 21,090
9/30/11	\$ 27,815	\$ 8,603	30.92%	\$ 40,302
9/30/12	\$ 28,583	\$ 9,420	32.96%	\$ 59,465

The funded status and funding progress as of September 30, 2012 was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
10/01/09	\$--	\$ 166,418	\$ 166,418	0.00%	\$ 1,688,627	9.86%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions and the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made from the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information (when available), about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

CITY OF HOLMES BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Projection of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and participating members. Projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2009 OPEB actuarial valuation, the projected unit credit cost method was used. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4% discount rate. Other assumptions include health care cost rates of 10% for 2008, decreasing .5% to 5.5% in 2017; participation rates for future retirees of 10%; participation rates of current retirees of 100% until age 65; spouse participation until age 65; police retirement age latest of age 50, plan eligibility or current age; general employee retirement age latest of age 62, plan eligibility or current age; life expectancy based on mortality tables at the National Center for Health Statistics website; and a withdrawal rate using non-group specific age-based turnover data provided in GASB Statement 45.

NOTE 8 – RISK MANAGEMENT

Risk Management – The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. There has been no significant reduction in insurance coverage from the prior year, and there have been no settlements or claims in excess of coverage.

Health and Dental Program – As noted above under “Post-Employment Benefits and Other Pensions,” the City allows retiring employees and their dependents to remain covered in the City’s Plan as long as they pay the premium not exceeding the rate developed by blending the claims experience of all Plan members for the Plan and coverage elected. The benefit is self-insured by the City up to the attachment point for the City’s stop-loss coverage. There have been no significant reductions in insurance coverage for the current fiscal year.

NOTE 9 – CONTINGENCIES

The City is currently involved in litigation with various parties. The outcome of these matters and potential losses to the City cannot be determined. As a result, no liability has been recorded in these financial statements. It is at least reasonably possible that additional liabilities could result in the near term.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF HOLMES BEACH, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Ad valorem taxes	\$ 2,059,174	\$ 2,059,174	\$ 2,085,702	\$ 26,528
State and county receipts	958,358	958,358	972,428	14,070
Licenses and permits	393,500	393,500	448,725	55,225
Storm water fees	225,000	225,000	221,209	(3,791)
Franchise fees	366,000	366,000	430,965	64,965
Interest	20,000	20,000	22,468	2,468
Grants	523,000	523,000	526,000	3,000
Other sources	53,050	53,050	75,537	22,487
	<u>4,598,082</u>	<u>4,598,082</u>	<u>4,783,034</u>	<u>184,952</u>
EXPENDITURES				
General government:				
Personal services	405,033	415,033	421,732	(6,699)
Operating	385,480	385,480	304,940	80,540
Capital outlay	5,000	5,000	8,060	(3,060)
Total General Government	<u>795,513</u>	<u>805,513</u>	<u>734,732</u>	<u>70,781</u>
Public Safety:				
Personal services	1,763,107	1,783,107	1,822,883	(39,776)
Operating	264,500	264,500	213,224	51,276
Capital outlay	68,000	68,000	54,843	13,157
Total Public Safety	<u>2,095,607</u>	<u>2,115,607</u>	<u>2,090,950</u>	<u>24,657</u>
Code Enforcement:				
Personal services	116,645	116,645	102,772	13,873
Operating	13,250	13,250	8,101	5,149
Total Code Enforcement	<u>129,895</u>	<u>129,895</u>	<u>110,873</u>	<u>19,022</u>
Public Works:				
Personal services	741,288	741,288	706,174	35,114
Operating	826,400	796,400	736,194	60,206
Capital outlay	1,298,906	1,298,906	975,012	323,894
Total Public Works	<u>2,866,594</u>	<u>2,836,594</u>	<u>2,417,380</u>	<u>419,214</u>
Total Expenditures	<u>5,887,609</u>	<u>5,887,609</u>	<u>5,353,935</u>	<u>533,674</u>
NET CHANGE IN FUND BALANCE	(1,289,527)	(1,289,527)	(570,901)	718,626
FUND BALANCE, October 1, 2011	5,447,290	5,447,290	5,447,290	-
FUND BALANCE, September 30, 2012	<u>\$ 4,157,763</u>	<u>\$ 4,157,763</u>	<u>\$ 4,876,389</u>	<u>\$ 718,626</u>

**CITY OF HOLMES BEACH, FLORIDA
SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
POLICE OFFICERS PENSION TRUST FUND**

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS (a)</u>	<u>ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE (b)</u>	<u>UNFUNDED AAL (UAAL) (b-a)</u>	<u>FUNDED RATIO (a/b)</u>	<u>COVERED PAYROLL (c)</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL ((b-a)/c)</u>
10/01/12	\$ 6,137,816	\$ 6,951,226	\$ 813,410	88.30%	\$ 539,468	150.78%
10/01/11	\$ 5,619,261	\$ 6,407,551	\$ 788,290	87.70%	\$ 546,761	144.17%
10/01/10	\$ 5,533,417	\$ 6,325,590	\$ 792,173	87.48%	\$ 736,641	107.54%
10/01/09	\$ 5,249,349	\$ 5,917,222	\$ 667,873	88.71%	\$ 731,663	91.28%
10/01/08	\$ 5,086,797	\$ 5,714,502	\$ 627,705	89.02%	\$ 615,810	101.93%
10/01/07	\$ 4,877,950	\$ 5,415,945	\$ 537,995	90.07%	\$ 633,577	84.91%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>YEAR ENDED SEPTEMBER 30</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>CITY CONTRIBUTION</u>	<u>STATE CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
2012	\$ 201,384	\$ 163,873	\$ 37,511	100.00%
2011	\$ 260,014	\$ 226,724	\$ 33,290	100.00%
2010	\$ 260,220	\$ 221,874	\$ 38,350	100.00%
2009	\$ 223,157	\$ 183,440	\$ 39,717	100.00%
2008	\$ 192,531	\$ 161,588	\$ 30,943	100.00%
2007	\$ 212,485	\$ 196,464	\$ 23,160	103.36%

* Frozen per chapter 185, as amended.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	10/01/12
Actuarial cost method	Frozen Entry Age
Amortization method	Level percentage of pay, closed
Remaining amortization period	26 years
Asset valuation method	Four-year smooth (market)
Actuarial assumptions:	
Investment rate of return	7.5%
Projected Salary Increases*	6.0%
Post retirement COLA	2.0% (for first 10 years)

* Includes inflation at 3.0%

**CITY OF HOLMES BEACH, FLORIDA
POST-EMPLOYMENT BENEFITS OTHER THAN PENSION
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL) Unit Credit</u>	<u>(3) Funded Ratio (1)/(2)</u>	<u>(4) Unfunded AAL (UAAL) (2)-(1)</u>	<u>(5) Covered Payroll</u>	<u>(6) UAAL as a Percentage of Covered Payroll (4)/(5)</u>
10/01/09	\$-0-	\$ 166,418	0.00%	\$ 166,418	\$ 1,688,627	9.86%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Estimated Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Estimated OPEB Obligation</u>
2012	\$ 28,583	\$ 9,420	32.96%	\$ 59,465
2011	\$ 27,815	\$ 8,603	30.92%	\$ 40,302
2010	\$ 26,971	\$ 5,881	21.80%	\$ 21,090

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the above Required Supplementary Information schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	10-1-09
Actuarial Cost Method	Projected unit credit
Amortization Method	Level-dollar payment
Remaining Amortization Period	30 years
Asset Valuation Method	Unfunded
Actuarial Assumptions:	
Investment rate of return	4%
Initial Per Capita Cost Trend Rate	10%
Ultimate Per Capita Cost Trend Rate	5%

OTHER SUPPLEMENTAL INFORMATION

CITY OF HOLMES BEACH, FLORIDA
DETAILED SCHEDULE OF REVENUES – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Ad valorem taxes	\$ 2,059,174	\$ 2,059,174	\$ 2,085,702	\$ 26,528
Franchise fees	366,000	366,000	430,965	64,965
Communication service tax	230,000	230,000	245,848	15,848
Storm water utilities fees	225,000	225,000	221,209	(3,791)
Revenue sharing – state	137,338	137,338	136,803	(535)
Sales tax	241,820	241,820	242,277	457
Casualty insurance tax	39,700	39,700	37,511	(2,189)
Ninth cent gas tax	24,000	24,000	18,602	(5,398)
Four cent gas tax	80,000	80,000	78,097	(1,903)
Two cent gas tax	61,000	61,000	64,792	3,792
Local option 5 cent gas tax	140,000	140,000	143,395	3,395
Alcoholic beverage tax	5,500	5,500	6,326	826
Court fines	4,000	4,000	4,370	370
Police education receipts	500	500	733	233
Police service charges	500	500	2,276	1,776
Licenses and permits	393,500	393,500	448,725	55,225
Interest earned	20,000	20,000	22,468	2,468
Administrative fees	5,000	5,000	5,809	809
Violation of local ordinance	6,500	6,500	11,025	4,525
Ordinance/zoning variances	500	500	-	(500)
Code enforcement fines	1,000	1,000	1,385	385
Skate park memberships	500	500	340	(160)
Private donations	-	-	2,425	2,425
Other grant funds	523,000	523,000	526,000	3,000
Building official service fees	1,500	1,500	785	(715)
Disposition of fixed assets	2,000	2,000	3,870	1,870
Tidemark lease	11,600	11,600	12,930	1,330
Miscellaneous	18,450	18,450	28,366	9,916
TOTAL REVENUES	\$ 4,598,082	\$ 4,598,082	\$ 4,783,034	\$ 184,952

**CITY OF HOLMES BEACH, FLORIDA
 DETAILED SCHEDULE OF EXPENDITURES
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER-30, 2012**

EXPENDITURES	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
ADMINISTRATIVE				
Clerk's salaries	\$ 261,795	\$ 261,795	\$ 256,812	\$ 4,983
Payroll taxes	23,298	23,298	22,914	384
Retirement	13,050	13,050	11,602	1,448
Life/health/workers comp insurance	64,170	74,170	87,684	(13,514)
Mayor and Council – expenses	42,720	42,720	42,720	-
Professional fees	135,000	135,000	138,710	(3,710)
Professional fees–Stormwater	82,380	82,380	59,915	22,465
Building maintenance	14,000	14,000	16,905	(2,905)
Office supplies	9,000	9,000	6,966	2,034
Operating supplies	14,200	14,200	16,912	(2,712)
Insurance	32,000	32,000	25,230	6,770
Advertising	11,000	11,000	5,108	5,892
Books, memberships, training	8,200	8,200	7,362	838
Miscellaneous	1,000	1,000	124	876
Elections expense	5,000	5,000	4,074	926
Leasing expense	9,500	9,500	702	8,798
Travel	10,000	10,000	8,324	1,676
Utilities	14,200	14,200	14,608	(408)
Contingency	40,000	40,000	-	40,000
Capital outlay	5,000	5,000	8,060	(3,060)
TOTAL ADMINISTRATIVE	795,513	805,513	734,732	70,781
POLICE DEPARTMENT				
Salaries	1,092,303	1,092,303	1,062,380	29,923
Payroll taxes	83,562	83,562	81,272	2,290
Retirement	257,017	257,017	215,900	41,117
Life/health/workers comp insurance	330,225	350,225	463,331	(113,106)
Operational expenses	94,000	94,000	75,090	18,910
Service contracts/leases	5,000	5,000	4,466	534
Professional fees	4,000	4,000	4,658	(658)
Maintenance	34,000	34,000	21,294	12,706
Insurance	91,000	91,000	73,736	17,264
Utility services	18,000	18,000	17,650	350
Radio/communications	4,000	4,000	6,760	(2,760)
Travel	7,000	7,000	5,765	1,235
Education	7,500	7,500	3,805	3,695
Capital outlay	68,000	68,000	54,843	13,157
TOTAL POLICE DEPARTMENT	2,095,607	2,115,607	2,090,950	24,657

**CITY OF HOLMES BEACH, FLORIDA
 DETAILED SCHEDULE OF EXPENDITURES
 BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

EXPENDITURES	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
CODE ENFORCEMENT				
Salaries	\$ 75,170	\$ 75,170	\$ 73,085	\$ 2,085
Payroll taxes	5,750	5,750	5,591	159
Retirement	6,675	6,675	6,578	97
Life/health/workers comp insurance	29,050	29,050	17,518	11,532
Professional fees	500	500	611	(111)
Insurance	7,500	7,500	4,424	3,076
Vehicle maintenance	1,000	1,000	1,036	(36)
Office supplies	1,000	1,000	686	314
Operating supplies / work	1,550	1,550	1,179	371
Travel	1,200	1,200	-	1,200
Education	500	500	165	335
TOTAL CODE ENFORCEMENT	129,895	129,895	110,873	19,022
PUBLIC WORKS DEPARTMENT				
Salaries	500,273	500,273	490,928	9,345
Payroll taxes	38,275	38,275	37,602	673
Retirement	29,765	29,765	28,008	1,757
Life/health/workers comp insurance	172,975	172,975	149,636	23,339
Maintenance	70,000	70,000	59,125	10,875
Professional fees	451,500	451,500	432,447	19,053
Office supplies	2,000	2,000	2,155	(155)
Insurance	72,000	42,000	31,762	10,238
Capital outlay	1,298,906	1,298,906	975,012	323,894
Advertising	4,000	4,000	2,170	1,830
Operational supplies / work	72,500	72,500	106,625	(34,125)
Travel	2,300	2,300	600	1,700
Road maintenance & materials	26,000	26,000	13,478	12,522
Rents / leases	2,000	2,000	696	1,304
Education	3,300	3,300	2,527	773
Utilities	110,000	110,000	81,178	28,822
Miscellaneous	10,800	10,800	3,431	7,369
TOTAL PUBLIC WORKS DEPARTMENT	2,866,594	2,836,594	2,417,380	419,214
TOTAL EXPENDITURES	\$ 5,887,609	\$ 5,887,609	\$ 5,353,935	\$ 533,674

OTHER AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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**

**To the Honorable Mayor and City Commission
City of Holmes Beach, Florida**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Holmes Beach, Florida as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 18, 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 City of Holmes Beach, Florida is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 City of Holmes Beach'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the City of Holmes Beach in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of the Mayor, City Commissioners, management, 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.

*Christopher, Smith, Leonard,
Bristow + Stanell, P.A.*
CHRISTOPHER SMITH, LEONARD,
BRISTOW & STANELL, P.A.

January 18, 2013
Bradenton, Florida

MANAGEMENT LETTER

To the Honorable Mayor and City Commission
City of Holmes Beach, Florida

We have audited the financial statements of City of Holmes Beach, Florida as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated January 18, 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, and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated January 18, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and unless otherwise required to be reported in the report on compliance and internal controls, we report the following:

- 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. All prior year comments not addressed below have been corrected.
- 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 City of Holmes Beach complied with Section 218.415, Florida Statutes regarding the investment of public funds.
- The Rules of the Auditor General, Section 10.554(1)(i)3., require that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have the following recommendation:

2010-1. Cross Training

Comment

As noted in prior audits, the Treasurer performs most accounting functions and no other employee is trained to perform these functions.

The City has started the process of cross training for various accounting applications. We continue to recommend the completion of this process.

Management's Response

We continue to work on cross training employees.

- 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 occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- 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 qualitative and quantitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings, except as previously noted above.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the City of Holmes Beach has met one or more of the conditions described in Section 218.503(1), Florida Statutes and identification of the specific conditions met. In connection with our audit, we determined that the City of Holmes Beach is not in a state of financial emergency, as it did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- As required by Section 10.554(1)(i)7.b, Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Holmes Beach for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we 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 City of Holmes Beach's 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 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 City Commission and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Christopher, Smith, Leonard,
Bristow + Stanell, P.A.
CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P.A.

January 18, 2013
Bradenton, Florida