

FINANCIAL STATEMENTS

TOWN OF PONCE INLET, FLORIDA

For the Year Ended September 30, 2010
With Independent Auditors' Reports

MAYOR

Honorable Tony Goudie

VICE MAYOR

Kris Derr

TOWN COUNCIL MEMBERS

Barbara Davis
Tami Lewis
Tom Rutledge

TOWN MANAGER

Jeaneen P. Clauss

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September 30, 2010
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FINANCIAL SECTION

THIS SECTION IS COMPOSED OF THE FOLLOWING FIVE PARTS:

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

***COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES***

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INDEPENDENT AUDITORS' REPORT

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BM&C

BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor Kris Derr
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the "Town") as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The introductory section and other supplementary information section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The other supplementary 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Brent Milliken & Co., P.A.

March 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Town of Ponce Inlet, Florida, (hereinafter referred to as the "Town"), we offer the readers of these basic financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year that ended on September 30, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this information.

Financial Highlights

It is important to begin this by highlighting that the expressed goal of the Town's Governing Body has been to reduce taxes and government spending. Additionally, a goal was established to begin reduction of the Town's reserve which was determined to be higher than originally intended. A business owner would probably never have a goal of reducing his/her revenue or his/her savings; this is a primary difference in understanding how one should look at a government audit differently than a business audit. That being said, the budget and subsequent audit for fiscal year 09/10 show systematic downsizing throughout – reductions in revenue, reductions in assets, and an increase in use of reserve funds. This is not a reduction in financial strength, as the Town has also shown reductions in expenditures and reductions in debt.

The following is a summary of the Town's annual financial highlights:

- The Town's overall combined assets totaled \$21,369,955 at the close of the 2010 fiscal year compared to \$22,148,238 last year. Total assets exceeded liabilities by \$14,469,889 (*combined net assets*) compared with \$14,782,877 one year earlier. The unrestricted component of the Town's combined net assets totaled \$4,647,122 at year end, compared with \$5,016,255 last year, which represents the unrestricted amount that may be used to meet the Town's ongoing obligations to citizens and creditors.
- Net assets of the Town's governmental activities totaled \$11,999,804, a decrease of \$100,326 under last year's \$12,100,130 or -0.8%. Net assets of its business-type activities totaled \$2,470,085, a decrease of \$212,662 under last year's \$2,682,747, or -7.9%.
- During 2010, the Town incurred governmental expenses of \$4,714,823, which were \$100,326 greater than the \$4,614,497 generated in taxes and all other governmental sources for providing its various governmental activities and programs (including interfund transfers out of \$29,005). This apparent "deficit" was pre-planned through the decision of the Town's Governing Body to utilize \$168,366 in reserve funds to supplement the budget for non-recurring expenditures so that they could reduce taxes by twenty-six percent (26%); only \$100,326 was actually needed so the expenditures were actually \$68,040 under budgeted revenues. In the prior year, the increase in net assets of the Town's governmental operations totaled \$533,712.
- The Town's business-type activities produced a combined loss (before contributions and operating transfers) of \$243,703 during 2010 based exclusively on consumptive water/sewer/solid waste utility sales of \$2,157,590 (\$2,222,846 in 2009). After recognition of capital contributions of \$2,036 and net interfund transfers in of \$29,005, the decrease in combined net assets totaled \$212,662 in 2010, compared to a decrease of \$106,298 in 2009.
- Unreserved fund equity in the General Fund decreased by \$322,525 at the end of 2010 and totaled \$3,362,087, compared to \$3,684,612 at the end of 2009. Unreserved fund equity in the General Fund at the end of 2010 represents approximately 82% of reported 2010 General Fund expenditures, compared to 78% at the end of 2009.

- The Town's total long-term debt totaled \$5,705,085 at the end of 2010, compared to \$6,106,143 at the end of 2009, which excludes \$278,166 and \$344,386, respectively, in estimated long-term amounts which will ultimately be paid for employee compensated absences (e.g., accrued sick and personal leave). The total reduction in the Town's long-term debt in 2010 was \$462,278.

Overview of the Financial Statements

The Town's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including budgetary comparisons and fiduciary fund data.

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the Town's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the Town. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Town's overall financial status, including its governmental activities and its business-type activities. These statements report information about the Town using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Town's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide financial statements. The governmental funds' statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the Town's water, sewer and refuse utility systems. Fiduciary fund statements provide information about the financial relationships in which the Town acts solely as a trustee or agent for the benefit of others (like the retirement plan for the Town's part-time and volunteer firefighters), to whom the resources in question belong.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Town's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the Town's governmental fund activities.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The basic financial statements of the Town include a statement of net assets and a statement of activities, which are described as follows:

- A statement of net assets presents information on all of the Town's assets and liabilities at the end of its fiscal year, 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 Town's financial position is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a

corresponding increase to liabilities results in increased net assets, which indicates an improved financial condition.

- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the Town's net assets changed during the 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 the 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., delinquent taxes; earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*government 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 governmental activities of the Town include general government services, public safety (police, fire and building inspection), transportation and streets (public works), stormwater management and recreation and leisure services. The business-type activities of the Town include its water, sewer and refuse utility systems.

The government-wide financial statements include not only the Town of Ponce Inlet itself (known as the primary government), but also the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the "Lighthouse Association"), for which the Town is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Complete financial statements of the Lighthouse Association component unit can be obtained directly from the Association's Administrative Office at 4931 South Peninsula Drive, Ponce Inlet, FL 32127.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds - not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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 accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating the government's near-term financing requirements.

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

The Town maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Public Land Acquisition and Facility Special Revenue Fund, and 143 Beach Street Capital Projects Fund, all of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual fund budgetary statements in the other supplementary information section of this report.

Proprietary Funds. Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The Town's three enterprise funds (water, sewer and refuse utility systems, all of which are considered major funds of the Town) are aggregated in the business-type activities presented in the government-wide statements. Since the accounting for these operations is similar to that provided in the government-wide financial statements, the fund financial statements provide limited supplemental information in more detail, such as cash flows data.

Fiduciary funds. The Town is the trustee, or fiduciary, for its volunteer firefighters' pension plan. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are separately reported in the statements of fiduciary net assets and changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. Rather, the Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the Town as a Whole

Net Assets. As noted previously, net assets may serve over time as a useful indicator of a government's financial position. This year, the Town's combined total assets exceeded liabilities (net assets) by \$14,469,889 at the end of 2010 (compared to \$14,782,877 at the end of 2009), which is summarized as follows:

Net Assets						
September 30, 2010 and 2009						
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets:						
Current and other assets.....	\$ 4,905,094	5,338,975	1,149,008	1,159,632	6,054,102	6,498,607
Capital assets, net.....	<u>13,480,070</u>	<u>13,622,277</u>	<u>1,835,783</u>	<u>2,027,354</u>	<u>15,315,853</u>	<u>15,649,631</u>
Total assets.....	<u>18,385,164</u>	<u>18,961,252</u>	<u>2,984,791</u>	<u>3,186,986</u>	<u>21,369,955</u>	<u>22,148,238</u>
Liabilities:						
Long-term debt.....	5,705,085	6,106,143	-	-	5,705,085	6,106,143
Other liabilities.....	<u>680,275</u>	<u>754,979</u>	<u>514,706</u>	<u>504,239</u>	<u>1,194,981</u>	<u>1,259,218</u>
Total liabilities.....	<u>6,385,360</u>	<u>6,861,122</u>	<u>514,706</u>	<u>504,239</u>	<u>6,900,066</u>	<u>7,365,361</u>
Net Assets:						
Invested in capital assets, net of related debt.....	7,774,985	6,808,908	1,835,783	2,027,354	9,610,768	8,836,262
Restricted.....	156,233	733,631	55,766	196,729	211,999	930,360
Unrestricted.....	<u>4,068,586</u>	<u>4,557,591</u>	<u>578,536</u>	<u>458,664</u>	<u>4,647,122</u>	<u>5,016,255</u>
Total net assets.....	<u>\$ 11,999,804</u>	<u>12,100,130</u>	<u>2,470,085</u>	<u>2,682,747</u>	<u>14,469,889</u>	<u>14,782,877</u>

One of the most significant components of the Town's net assets (66%) is its investment in capital assets (land, buildings, building improvements, and equipment), less any related debt used to acquire or construct those assets, which is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Town also has an investment (2%) in restricted net assets, consisting primarily of unspent impact fee and inspection funds which are restricted for specific use. Consequently, the remaining 32% of unrestricted net assets represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, which totaled \$4,647,122 at the end of 2010, compared to \$5,016,255 at the end of 2009. This reduction was largely in part to the early payoff of the fire truck loan and authorized matching grants for which the match of the other party had not been received by the end of 2010.

During Fiscal 2010, the governing body chose to decrease its assets in order to reduce the property tax burden on its residents. As long as this is done while maintaining a healthy reserve, this should not be considered as a deteriorating financial position but rather an overall downsizing of local government in response to the demand for increased efficiency in operations.

Changes in Net Assets. While the statement of net assets shows a snapshot of the Town's financial position at the end of the fiscal year, the statement of changes in net assets provides answers as to the nature and sources of those changes. During 2010, the Town's total revenues decreased by \$1,299,359 to a total of \$6,813,846, compared to \$8,113,205 the prior year. This year's decrease was primarily the result of decreased property tax collections in the amount of \$1,039,667, offset by slight increases and decreases in other revenues. During 2010, approximately 43% of the Town's total revenue was derived from property taxes, and 56 cents of every dollar raised came from some form of tax. Another 40% was produced from fees charged for services, while the substantial portion of the remainder is from capital/operating grants and contributions, and other sources (4%).

The total cost of providing all routine programs and services decreased approximately 7% to \$7,126,834, compared to \$7,685,791 in the prior year. Overall, the Town's net assets decreased \$312,988 during the 2010 fiscal year. Revenues decreased by about 16% compared to last year, and the Town's expenses for its combined governmental and business activities decreased by about 7% compared to the prior year.

The following is a summary of changes in net assets for the fiscal year:

Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

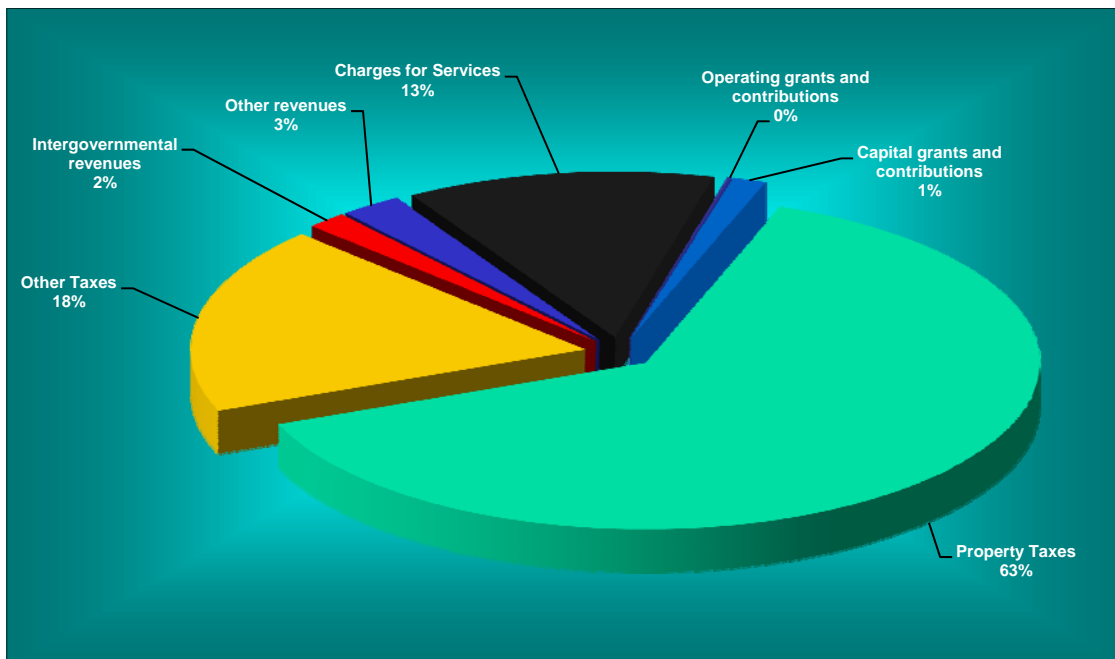
	Governmental Activities		Business-type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Current charges for services.....	\$ 587,052	575,415	2,157,590	2,222,846	2,744,642	2,798,261
Operating grants/contributions....	7,096	36,455	-	-	7,096	36,455
Capital grants/contributions.....	63,485	65,227	2,036	1,018	65,521	66,245
General revenues:						
Property taxes.....	2,945,460	3,985,127	-	-	2,945,460	3,985,127
Other taxes.....	846,355	800,471	-	-	846,355	800,471
Intergovernmental.....	76,645	76,656	-	-	76,645	76,656
Other revenues.....	<u>117,409</u>	<u>114,417</u>	<u>10,718</u>	<u>235,573</u>	<u>128,127</u>	<u>349,990</u>
Total revenues.....	<u>4,643,502</u>	<u>5,653,768</u>	<u>2,170,344</u>	<u>2,459,437</u>	<u>6,813,846</u>	<u>8,113,205</u>

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Expenses:						
General government.....	1,180,804	1,399,315	-	-	1,180,804	1,399,315
Public safety.....	2,730,387	2,901,816	-	-	2,730,387	2,901,816
Physical environment.....	144,197	91,075	-	-	144,197	91,075
Transportation.....	350,990	416,357	-	-	350,990	416,357
Culture/recreation.....	93,921	174,959	-	-	93,921	174,959
Interest expense.....	214,524	235,711	-	-	214,524	235,711
Water system.....	-	-	1,347,021	1,346,199	1,347,021	1,346,199
Sewer system.....	-	-	927,486	986,602	927,486	986,602
Refuse/solid waste system.....	-	-	137,504	133,757	137,504	133,757
Total expenses.....	<u>4,714,823</u>	<u>5,219,233</u>	<u>2,412,011</u>	<u>2,466,558</u>	<u>7,126,834</u>	<u>7,685,791</u>
Transfers in (out).....	<u>(29,005)</u>	<u>99,177</u>	<u>29,005</u>	<u>(99,177)</u>	<u>-</u>	<u>-</u>
Increase in net assets.....	(100,326)	533,712	(212,662)	(106,298)	(312,988)	427,414
Net assets, beginning of year.....	<u>12,100,130</u>	<u>11,566,418</u>	<u>2,682,747</u>	<u>2,789,045</u>	<u>14,782,877</u>	<u>14,355,463</u>
Net assets, end of year.....	<u>\$11,999,804</u>	<u>12,100,130</u>	<u>2,470,085</u>	<u>2,682,747</u>	<u>14,469,889</u>	<u>14,782,877</u>

Governmental Activities

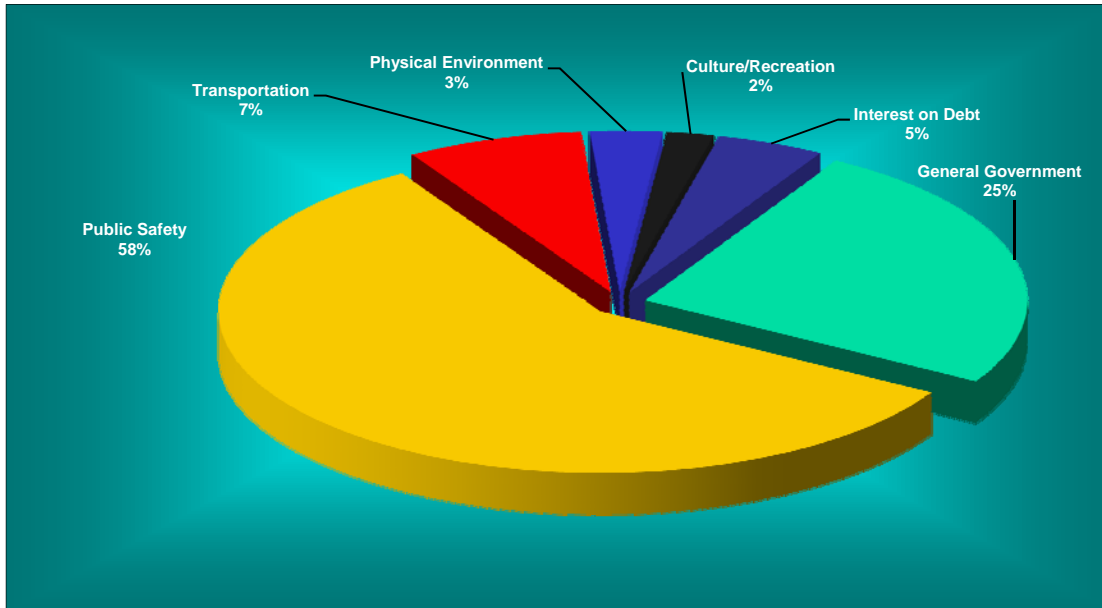
Revenues for the Town's governmental activities were approximately 18% less than the amount of revenue earned in the prior fiscal year, the majority of which was attributed to a 26% decrease in property taxes. Overall, the Town's governmental revenues totaled \$4,643,502, which represents a decrease of \$1,010,266 below last year's reported revenues of \$5,653,768. The following is a summary of the Town's governmental revenues by source:

Revenues by Source - Governmental Activities



Expenses for the Town's combined governmental activities decreased approximately 10% in 2010. Amounts totaled \$4,714,823 in 2010, compared to \$5,219,233 in 2009, or \$504,410 less than the prior year. During 2010, the Town's public safety (police, fire and inspection) function expenses represented 58% of the Town's total governmental expenses while the general government function expenses represented 25% of the Town's total operating expenses. The following is a summary of the Town's governmental expenses by function:

Expenses by Function - Governmental Activities



Business-type Activities

The major sources of operating revenues for the Town's business-type activities are charges for services attributed to its water, sewer and refuse utilities. Potable water is purchased in bulk from the City of Port Orange and sold to the Town's customers under rates established by the Town. Sewer collection services are billed by the Town on behalf of the City of Port Orange under rates established by Port Orange, all of which is remitted to Port Orange monthly. The Town collects an annual administrative fee for billing, collecting, and remitting all sewer charges and payments. The Town also bills utility connection and capacity fees on behalf of Port Orange under rates established by Port Orange, which are collected and subsequently remitted to Port Orange. Solid waste and recycling fees are charged to the Town's customers under rates established by the Town. An independent contractor is engaged by the Town to perform all collection and disposal activities.

Combined utility sales totaled \$2,157,590 in 2010, compared to \$2,222,846 in 2009. The Town also collected water and sewer impact/connection fees (included in reported total sales for 2010) totaling \$3,610 and \$31,241, respectively, which were remitted to the City of Port Orange. In addition to these charges, the Town received \$2,036 in water impact fees and \$10,718 in miscellaneous and investment earnings during the recent fiscal year.

Operating expenses of the Town's business-type activities totaled \$2,412,011 in 2010, compared to \$2,466,558 in 2009. Depreciation expense on utility fund assets, included in this amount, totaled \$118,295 and \$113,847 for the years ended in 2010 and 2009, respectively.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved 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 the Town completed the year, its governmental funds reported a combined fund balance of \$4,506,441, which was \$390,050 less than the \$4,896,491 reported at the close of last year. This decrease was primarily attributable to a decrease in property tax revenues offset by a decrease in overall expenditures.

The General fund is the chief operating fund of the Town. At the end of 2010, the unreserved fund balance in the general fund totaled \$3,362,087, compared to \$3,684,612, one year earlier. This unreserved fund balance represents approximately 82% (or approximately 42 weeks / 10 months) of the Town's spending requirements experienced during 2010. This is slightly greater than the approximate 41 weeks reserve from last year.

The Public Land Acquisition and Facility special revenue fund was established in 2003 to separately account for the collection and disposition of the Town's franchise fee collections on solid waste and utility service taxes on providers of electricity and liquid propane in the Town (and pledged for debt service on the Town's Capital Improvement Revenue Note, Series 2005). These funds are restricted for the acquisition and improvement of real property in the Town. At the end of 2010, unreserved fund balance in this fund was \$851,077 compared to \$848,042 one year earlier. To better describe the activity of this fund in regard to the obligation of the aforementioned Revenue Note, Series 2005 (the Town Hall capital project), the Town continues to budget approximately \$290,000 per year in revenue towards a \$330,000 per year payment so some of this fund's reserve each year is allocated in the budget to meet this obligation.

The 143 Beach Street capital projects fund was established in 2008 to separately account for grant activities related to expenditures for the restoration of the Meyer-Davis House and Hasty Cottage/Post Office. This fund was terminated with the completion of capital construction in 2010.

Unreserved fund balances in the remainder of the Town's non-major special revenue and capital projects funds totaled \$196,335 at the end of the year.

Proprietary Funds. The Town's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility Fund at the end of the year amounted to \$486,330. Unreserved equity in the Town's Sewer Utility Fund (which is operated on a pass-through basis in conjunction with an Agreement with the City of Port Orange, Florida), totaled \$67,084 at the end of the year, all of which will ultimately be transferred to the Town's General Fund. Unreserved fund equity in the Town's Refuse Utility Fund totaled \$25,122 at year end. Net operating transfers totaling \$29,005 were transferred from governmental funds during 2010 in the form of reimbursements for capital acquisitions and operating transfers. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the Town's operating budget. These budget amendments fall into two categories:

- Amendments and supplemental appropriations were approved midway through the year to reflect the actual opening account balances (correcting estimated amounts in the budget adopted at the beginning of the year).
- Increases/decreases in line item budget appropriations to prevent budget overruns.

Actual earned revenues were \$50,652 greater than the final amounts anticipated to be received during the year in the Town's General Fund. Actual expenditures incurred were \$92,228 below the \$4.2 million amended budget appropriations provided in the 2010 operating budget. The Town's General Fund operated at a deficit, with transfer activities included, and drew from existing fund balance and/or surplus reserves to meet spending obligations for the year. As mentioned earlier in this analysis, this was a decision made by the Town Council when this budget was prepared in order to reduce the property tax burden to residents by twenty-six percent (26%) and begin utilizing some of the Town's excess reserves

Capital Assets and Debt Administration

Capital Assets. At September 30, 2010, the Town had \$20.5 million invested in a broad range of capital assets, including land, buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule:

Capital Assets September 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and land rights.....	\$ 4,333,656	4,317,124	4,033	4,033	4,337,689	4,321,157
Buildings.....	5,590,037	5,301,475	-	-	5,590,037	5,301,475
Improvements other than buildings..	4,527,403	4,400,199	3,209,139	2,947,864	7,736,542	7,348,063
Equipment and furniture.....	2,753,993	2,653,725	129,801	126,202	2,883,794	2,779,927
	17,205,089	16,672,523	3,342,973	3,078,099	20,548,062	19,750,622
Less: accumulated depreciation.....	(3,753,448)	(3,262,522)	(1,507,190)	(1,388,896)	(5,260,638)	(4,651,418)
	13,451,641	13,410,001	1,835,783	1,689,203	15,287,424	15,099,204
Construction in progress.....	28,429	212,276	-	338,151	28,429	550,427
Net capital assets.....	<u>\$ 13,480,070</u>	<u>13,622,277</u>	<u>1,835,783</u>	<u>2,027,354</u>	<u>15,315,853</u>	<u>15,649,631</u>

Long-term Debt. At year end, the Town had \$5,705,085 in long-term note and loan obligations outstanding, compared to \$6,106,143 one year earlier. More detailed information about the Town's long-term debt is presented in Note 8 to the financial statements.

The Town has a 2005 capital improvement revenue note obligation payable to Bank of America totaling \$3,622,957 at year end. The proceeds of this Series 2005 loan were used to finance the acquisition of land and the construction of a Town Hall and Public Safety Complex. The Town makes semi-annual debt service payments on this obligation until 2024.

The Town has a low interest loan program offered by the Florida Department of Environmental Protection Clean Water State Revolving Fund Loan Program. The proceeds of this construction loan were used to develop and rehabilitate the Town's stormwater management infrastructure. The Town makes semi-annual debt service payments on this obligation until 2026. The balance due on this loan at year end was \$2,082,128.

The Town entered into a capital lease obligation for the acquisition of machinery and equipment for the Town's fire department during 2009. During the 2010 fiscal year, the Town paid the remaining balance of \$179,000 in full.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the Town Council in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform utility fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Database (FRED). This agency estimates a countywide unemployment rate of 12.2% at the end of September 2010, which is just slightly higher than the 11.7% rate experienced one year earlier. These estimates are consistent with the State of Florida's 11.8% and 11.4% unemployment rates at September 2010 and 2009, respectively.
- Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.
- The overall taxable value of real and personal property on the 2010 levy declined 9.5% from \$763 million to \$690 million for fiscal year 2011, and the Town Council voted to increase the operating millage (4.4555 mills) for fiscal year 2010, which was 0.3% less than the rolled-back rate of 4.4682 mills. Coupled with these conditions, the Town is also facing many challenges in the fiscal year 2011 budget due to projected revenue decreases as a result of state legislated property tax reform and a declining economy. At the same time, the Town is experiencing rising prices for many of the basic operating expenses.

In the process of presenting a balanced operating budget for the General Fund for 2010-2011 and to meet the challenges discussed above, a complete departmental review of the operational needs of each department was considered and submitted to the Town Manager for approval prior to being compiled and submitted to the Town Council for inclusion in the final budget.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Town Manager, Town of Ponce Inlet, Florida, 4300 South Atlantic Avenue, Ponce Inlet, Florida 32127.

BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET ASSETS
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lighthouse Association
Assets:				
Cash and cash equivalents.....	\$ 2,650,865	596,709	3,247,574	613,314
Investments.....	1,844,069	261,236	2,105,305	-
Receivables, net.....	243,372	221,906	465,278	-
Inventories.....	5,015	-	5,015	142,177
Prepaid expenses.....	161,773	9,781	171,554	-
Other current assets.....	-	-	-	2,997
Temporarily restricted assets:				
Cash and cash equivalents.....	-	59,376	59,376	-
Capital assets:				
Land and construction in progress.....	4,362,085	4,033	4,366,118	407,450
Other capital assets, net of depreciation.....	<u>9,117,985</u>	<u>1,831,750</u>	<u>10,949,735</u>	<u>2,382,087</u>
Total assets.....	<u>\$ 18,385,164</u>	<u>2,984,791</u>	<u>21,369,955</u>	<u>3,548,025</u>
Liabilities:				
Accounts payable and accrued liabilities...	\$ 209,143	241,291	450,434	39,163
Due to other governments.....	78,583	-	78,583	-
Deposits/unearned revenue.....	69,264	249,009	318,273	-
Accrued interest payable.....	67,009	-	67,009	-
Long-term debt:				
Due within one year.....	333,185	-	333,185	-
Due in more than one year.....	5,371,900	-	5,371,900	-
Compensated absences.....	<u>256,276</u>	<u>24,406</u>	<u>280,682</u>	<u>-</u>
Total liabilities.....	<u>6,385,360</u>	<u>514,706</u>	<u>6,900,066</u>	<u>39,163</u>
Net Assets:				
Invested in capital assets, net of related debt.....	7,774,985	1,835,783	9,610,768	2,789,537
Restricted for:				
Utility expansion.....	-	55,766	55,766	-
Law enforcement.....	80,152	-	80,152	-
Debt service.....	76,081	-	76,081	-
Unrestricted.....	<u>4,068,586</u>	<u>578,536</u>	<u>4,647,122</u>	<u>719,325</u>
Total net assets.....	<u>\$ 11,999,804</u>	<u>2,470,085</u>	<u>14,469,889</u>	<u>3,508,862</u>

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

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

Functions / Programs	Program Revenues			
	Expenses	Charges For Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 1,180,804	357,098	-	-
Public safety.....	2,730,387	201,859	6,079	63,485
Physical environment.....	144,197	-	-	-
Transportation.....	350,990	-	-	-
Culture/recreation.....	93,921	28,095	1,017	-
Interest on long-term debt.....	<u>214,524</u>	-	-	-
Total governmental activities.....	<u>4,714,823</u>	<u>587,052</u>	<u>7,096</u>	<u>63,485</u>
Business-type Activities:				
Water utilities.....	1,347,021	1,049,773	-	2,036
Sewer utilities.....	927,486	946,730	-	-
Refuse utilities.....	<u>137,504</u>	<u>161,087</u>	-	-
Total business-type activities.....	<u>2,412,011</u>	<u>2,157,590</u>	-	<u>2,036</u>
Total primary government.....	<u>\$ 7,126,834</u>	<u>2,744,642</u>	<u>7,096</u>	<u>65,521</u>
Component Units:				
Lighthouse Association.....	<u>\$ 1,413,484</u>	<u>1,425,813</u>	-	-
General revenues:				
Taxes:				
Property taxes, levied for general purposes.....				
Local option gas taxes.....				
Public service taxes.....				
Sales taxes.....				
Other taxes.....				
Intergovernmental revenues.....				
Investment earnings.....				
Miscellaneous.....				
Transfers.....				
Total general revenues and transfers.....				
Change in net assets.....				
Net assets - beginning of year.....				
Net assets - end of year.....				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Lighthouse Association
(823,706)	-	(823,706)	
(2,458,964)	-	(2,458,964)	
(144,197)	-	(144,197)	
(350,990)	-	(350,990)	
(64,809)	-	(64,809)	
<u>(214,524)</u>	<u>-</u>	<u>(214,524)</u>	
<u>(4,057,190)</u>	<u>-</u>	<u>(4,057,190)</u>	
-	(295,212)	(295,212)	
-	19,244	19,244	
<u>-</u>	<u>23,583</u>	<u>23,583</u>	
<u>-</u>	<u>(252,385)</u>	<u>(252,385)</u>	
<u>(4,057,190)</u>	<u>(252,385)</u>	<u>(4,309,575)</u>	
			<u>12,329</u>
2,945,460	-	2,945,460	-
155,899	-	155,899	-
508,698	-	508,698	-
143,042	-	143,042	-
38,716	-	38,716	-
76,645	-	76,645	-
78,881	5,316	84,197	5,332
38,528	5,402	43,930	939
<u>(29,005)</u>	<u>29,005</u>	<u>-</u>	<u>-</u>
<u>3,956,864</u>	<u>39,723</u>	<u>3,996,587</u>	<u>6,271</u>
(100,326)	(212,662)	(312,988)	18,600
<u>12,100,130</u>	<u>2,682,747</u>	<u>14,782,877</u>	<u>3,490,262</u>
<u>\$ 11,999,804</u>	<u>2,470,085</u>	<u>14,469,889</u>	<u>3,508,862</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	General	Debt Service Fund	Public Land Acquisition and Facility	143 Beach St. Capital
Assets:				
Cash and cash equivalents.....	\$ 1,670,538	149,550	806,216	-
Investments.....	1,823,900	4,824	14,100	-
Receivables, net.....	75,871	-	30,761	-
Due from other governments.....	94,861	-	-	38,493
Inventories.....	5,015	-	-	-
Prepaid expenses.....	<u>161,773</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>\$ 3,831,958</u>	<u>154,374</u>	<u>851,077</u>	<u>38,493</u>
Liabilities and Fund Balances:				
Liabilities:				
Cash overdraft in pooled accounts.....	\$ -	-	-	219,144
Accounts payable and accrued expenses.....	186,847	-	-	-
Due to other governments.....	290	78,293	-	-
Deferred revenue.....	<u>69,264</u>	<u>-</u>	<u>-</u>	<u>38,493</u>
Total liabilities.....	<u>256,401</u>	<u>78,293</u>	<u>-</u>	<u>257,637</u>
Fund Balances:				
Reserved for law enforcement.....	53,617	-	-	-
Reserved for prepaid expenses.....	154,838	-	-	-
Reserved for inventories.....	5,015	-	-	-
Reserved for debt service.....	-	76,081	-	-
Unreserved:				
Designated for hurricane expenses.....	100,000	-	-	-
Undesignated, reported in:				
General fund.....	3,262,087	-	-	-
Special revenue funds.....	-	-	-	-
Capital projects funds.....	<u>-</u>	<u>-</u>	<u>851,077</u>	<u>(219,144)</u>
Total fund balances.....	<u>3,575,557</u>	<u>76,081</u>	<u>851,077</u>	<u>(219,144)</u>
Total liabilities and fund balances.....	<u>\$ 3,831,958</u>	<u>154,374</u>	<u>851,077</u>	<u>38,493</u>

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

Other Governmental Funds	Total- Governmental Funds
246,138	2,872,442
1,245	1,844,069
-	106,632
216	133,570
-	5,015
-	161,773
<u>247,599</u>	<u>5,123,501</u>
2,433	221,577
22,296	209,143
-	78,583
-	107,757
<u>24,729</u>	<u>617,060</u>
26,535	80,152
-	154,838
-	5,015
-	76,081
-	100,000
-	3,262,087
196,335	196,335
-	631,933
<u>222,870</u>	<u>4,506,441</u>
<u>247,599</u>	<u>5,123,501</u>

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

September 30, 2009

TOWN OF PONCE INLET, FLORIDA

Total governmental activities fund balances.....		\$ 4,506,441
Amounts reported for governmental activities in the statement of net assets are different because:		
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.....		41,663
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		13,480,070
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable, and capital lease obligations.....	(5,705,085)	
Accrued interest payable.....	(67,009)	
Compensatory wages payable.....	<u>(256,276)</u>	<u>(6,028,370)</u>
Net assets of governmental activities.....		<u>\$ 11,999,804</u>

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

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

For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	General	Debt Service Fund	Public Land Acquisition and Facility	143 Beach St. Capital
Revenue:				
Taxes:				
Property taxes.....	\$ 2,952,425	-	-	-
Local option gas taxes.....	155,899	-	-	-
Insurance premium taxes.....	24,322	-	-	-
Public service taxes.....	202,939	-	305,759	-
Other taxes.....	14,394	-	-	-
Permits and fees.....	445,691	-	31,307	-
Intergovernmental revenue	290,268	-	-	-
Charges for services.....	58,489	-	-	-
Fines and forfeitures.....	48,371	-	-	-
Investment earnings (loss).....	66,584	1,467	9,863	-
Miscellaneous revenue.....	<u>36,352</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue.....	<u>4,295,734</u>	<u>1,467</u>	<u>346,929</u>	<u>-</u>
Expenditures:				
Current:				
General government.....	1,032,620	-	-	-
Public safety.....	2,701,126	-	-	-
Physical environment.....	13,293	-	17,236	-
Transportation.....	356,239	-	-	-
Culture/recreation.....	21,494	-	-	9,307
Capital outlay:				
Culture/recreation.....	-	-	-	213,895
Debt service:				
Principal.....	-	401,058	-	-
Interest.....	<u>-</u>	<u>192,400</u>	<u>-</u>	<u>-</u>
Total expenditures.....	<u>4,124,772</u>	<u>593,458</u>	<u>17,236</u>	<u>223,202</u>
Excess of revenue over expenditures.....	<u>170,962</u>	<u>(591,991)</u>	<u>329,693</u>	<u>(223,202)</u>
Other Financing Sources (Uses):				
Operating transfers in.....	26,838	643,414	276	20,378
Operating transfers (out).....	<u>(311,858)</u>	<u>-</u>	<u>(326,934)</u>	<u>-</u>
	<u>(285,020)</u>	<u>643,414</u>	<u>(326,658)</u>	<u>20,378</u>
Excess of revenue and other sources (under) expenditures and other uses.....	(114,058)	51,423	3,035	(202,824)
Fund balances - beginning of year.....	<u>3,689,615</u>	<u>24,658</u>	<u>848,042</u>	<u>(16,320)</u>
Fund balances - end of year.....	<u>\$ 3,575,557</u>	<u>76,081</u>	<u>851,077</u>	<u>(219,144)</u>

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

Other Governmental Funds	Total- Governmental Funds
-	2,952,425
-	155,899
-	24,322
-	508,698
-	14,394
-	476,998
-	290,268
-	58,489
3,194	51,565
967	78,881
<u>2,176</u>	<u>38,528</u>
<u>6,337</u>	<u>4,650,467</u>
-	1,032,620
7,801	2,708,927
-	30,529
-	356,239
45,043	75,844
-	213,895
-	401,058
<u>-</u>	<u>192,400</u>
<u>52,844</u>	<u>5,011,512</u>
<u>(46,507)</u>	<u>(361,045)</u>
5,000	695,906
<u>(86,119)</u>	<u>(724,911)</u>
<u>(81,119)</u>	<u>(29,005)</u>
(127,626)	(390,050)
<u>350,496</u>	<u>4,896,491</u>
<u>222,870</u>	<u>4,506,441</u>

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

For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

Net change in fund balances - total governmental funds.....		\$ (390,050)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Expenditures for capital assets.....	369,107	
Less: current year loss on asset disposals.....	(4,100)	
Less: current year provision for depreciation.....	<u>(507,214)</u>	(142,207)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Increase (decrease) in delinquent taxes.....	(6,965)	
Increase (decrease) in deferred grant revenues.....	<u>-</u>	(6,965)
Some expenses reported in the statement of activities do not require the use of current financial resources are not reported as expenditures in the funds:		
(Increase) decrease in employee compensated absences.....	59,962	
(Increase) decrease in accrued interest on long-term debt obligations.....	<u>(22,124)</u>	37,838
Repayment of principal on long-term debt obligations is an expenditure in the governmental fund, but the repayments reduce long-term liabilities in the statement of net assets.....		<u>401,058</u>
Change in net assets of governmental activities.....		<u>\$ (100,326)</u>

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Assets:				
Current Assets:				
Cash and cash equivalents.....	\$ 460,792	118,241	17,676	596,709
Investments.....	256,067	3,866	1,303	261,236
Restricted cash and cash equivalents.....	59,376	-	-	59,376
Receivables, net:				
Accounts.....	9,243	7,774	1,740	18,757
Unbilled accounts.....	101,772	72,207	15,462	189,441
Due from other governments.....	-	13,708	-	13,708
Prepaid expenses.....	<u>9,781</u>	<u>-</u>	<u>-</u>	<u>9,781</u>
Total current assets.....	<u>897,031</u>	<u>215,796</u>	<u>36,181</u>	<u>1,149,008</u>
Noncurrent Assets:				
Capital Assets:				
Land and land rights.....	4,033	-	-	4,033
Distribution system.....	3,209,139	-	-	3,209,139
General utilities equipment.....	129,802	-	-	129,802
Less: accumulated depreciation.....	<u>(1,507,191)</u>	<u>-</u>	<u>-</u>	<u>(1,507,191)</u>
Total noncurrent assets.....	<u>1,835,783</u>	<u>-</u>	<u>-</u>	<u>1,835,783</u>
Total assets.....	<u>2,732,814</u>	<u>215,796</u>	<u>36,181</u>	<u>2,984,791</u>
Liabilities:				
Accounts payable and accrued expenses.....	81,520	148,712	11,059	241,291
Customer deposits.....	249,009	-	-	249,009
Compensated absences.....	<u>24,406</u>	<u>-</u>	<u>-</u>	<u>24,406</u>
Total liabilities.....	<u>354,935</u>	<u>148,712</u>	<u>11,059</u>	<u>514,706</u>
Net Assets:				
Invested in capital assets, net of related debt.....	1,835,783	-	-	1,835,783
Restricted for utility expansion.....	55,766	-	-	55,766
Unrestricted.....	<u>486,330</u>	<u>67,084</u>	<u>25,122</u>	<u>578,536</u>
Total net assets.....	<u>\$ 2,377,879</u>	<u>67,084</u>	<u>25,122</u>	<u>2,470,085</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS**

For the Year Ended September 30, 2010
 TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			Totals
	Water Utility	Sewer Utility	Refuse Utility	
Operating Revenues:				
Charges For Services:				
Water sales.....	\$ 1,043,355	-	-	1,043,355
Connection fees.....	340	-	-	340
Sewer charges.....	-	894,303	-	894,303
Port Orange's connection/impact fees.....	3,610	31,241	-	34,851
Other administrative charges.....	2,468	21,186	-	23,654
Refuse and recycling charges.....	-	-	161,087	161,087
Total operating revenue.....	<u>1,049,773</u>	<u>946,730</u>	<u>161,087</u>	<u>2,157,590</u>
Operating Expenses:				
Personal services.....	249,749	-	-	249,749
Cost of sales.....	766,049	-	-	766,049
Materials and supplies.....	7,914	1,534	1,534	10,982
Maintenance and repairs.....	15,617	-	-	15,617
Contractual services.....	175,777	893,084	134,208	1,203,069
Other expenses.....	10,010	1,627	1,762	13,399
Impact/connect fee payments to Port Orange.....	3,610	31,241	-	34,851
Depreciation.....	<u>118,295</u>	<u>-</u>	<u>-</u>	<u>118,295</u>
Total operating expenses.....	<u>1,347,021</u>	<u>927,486</u>	<u>137,504</u>	<u>2,412,011</u>
Operating income (loss).....	<u>(297,248)</u>	<u>19,244</u>	<u>23,583</u>	<u>(254,421)</u>
Nonoperating revenues (expenses):				
Investment earnings.....	3,078	1,799	439	5,316
Miscellaneous revenue (expense).....	<u>5,402</u>	<u>-</u>	<u>-</u>	<u>5,402</u>
Net nonoperating revenue (expenses).....	<u>8,480</u>	<u>1,799</u>	<u>439</u>	<u>10,718</u>
Income (loss) before contributions and transfers.....	(288,768)	21,043	24,022	(243,703)
Capital contributions.....	2,036	-	-	2,036
Transfer from Land Acquisition Fund.....	75,843	-	-	75,843
Transfer to General Fund.....	(643)	(8,577)	(17,618)	(26,838)
Transfer to Debt Service Fund.....	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>
Net increase (decrease) in net assets.....	(211,532)	2,466	(3,596)	(212,662)
Net assets - beginning of year.....	<u>2,589,411</u>	<u>64,618</u>	<u>28,718</u>	<u>2,682,747</u>
Net assets - end of year.....	<u>\$ 2,377,879</u>	<u>67,084</u>	<u>25,122</u>	<u>2,470,085</u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Cash Flows From Operating Activities:				
Cash received from customers and users.....	\$ 1,099,526	932,194	160,913	2,192,633
Cash paid for personal services.....	(253,491)	-	-	(253,491)
Cash paid to suppliers and others.....	<u>(1,050,676)</u>	<u>(986,959)</u>	<u>(159,356)</u>	<u>(2,196,991)</u>
Net cash provided by (used in) operating activities.....	<u>(204,641)</u>	<u>(54,765)</u>	<u>1,557</u>	<u>(257,849)</u>
Cash Flows From Noncapital and Related Financing Activities:				
Nonoperating revenues received.....	5,402	-	-	5,402
Operating transfers received.....	75,843	-	-	75,843
Operating transfers paid.....	<u>(643)</u>	<u>(18,577)</u>	<u>(27,618)</u>	<u>(46,838)</u>
Net cash provided by (used in) non- capital and related financing activities.....	<u>80,602</u>	<u>(18,577)</u>	<u>(27,618)</u>	<u>34,407</u>
Cash Flows From Capital and Related Financing Activities:				
Contributed capital received.....	2,036	-	-	2,036
Reimbursement for capital costs.....	211,495	-	-	211,495
Acquisition of capital assets.....	<u>(138,220)</u>	<u>-</u>	<u>-</u>	<u>(138,220)</u>
Net cash provided by (used in) capital and related financing activities.....	<u>75,311</u>	<u>-</u>	<u>-</u>	<u>75,311</u>
Cash Flows From Investing Activities:				
Interest earnings received.....	<u>3,078</u>	<u>1,799</u>	<u>439</u>	<u>5,316</u>
Net increase (decrease) in cash and cash equivalents.....	(45,650)	(71,543)	(25,622)	(142,815)
Cash and cash equivalents - Beginning of year.....	<u>821,885</u>	<u>193,650</u>	<u>44,601</u>	<u>1,060,136</u>
Cash and cash equivalents - End of year.....	<u>\$ 776,235</u>	<u>122,107</u>	<u>18,979</u>	<u>917,321</u>
Reconciliation of cash and cash equivalents:				
Unrestricted.....	\$ 716,859	122,107	18,979	857,945
Restricted.....	<u>59,376</u>	<u>-</u>	<u>-</u>	<u>59,376</u>
Total - all sources.....	<u>\$ 776,235</u>	<u>122,107</u>	<u>18,979</u>	<u>917,321</u>

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

STATEMENT OF CASH FLOWS - (Continued)

PROPRIETARY FUNDS

For the Year Ended September 30, 2010

TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss).....	\$ (297,248)	19,244	23,583	(254,421)
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Depreciation.....	118,295	-	-	118,295
Provision for losses on receivables.....	-	-	-	-
Changes in assets and liabilities:				
Accounts receivable.....	32,153	(14,536)	(174)	17,443
Prepaid expenses.....	(7,734)	-	-	(7,734)
Accounts payable.....	(3,491)	68	33	(3,390)
Compensated absences.....	(3,742)	-	-	(3,742)
Due to other funds.....	(60,474)	(59,541)	(21,885)	(141,900)
Deferred revenue.....	17,600	-	-	17,600
Customer deposits.....	-	-	-	-
Net cash provided by operating activities.....	<u>\$ (204,641)</u>	<u>(54,765)</u>	<u>1,557</u>	<u>(257,849)</u>

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Municipal Firefighters' Pension Trust Fund
<hr/>	
Assets:	
Cash and cash equivalents.....	\$ 146,458
Due from other governments-State of Florida.....	<u>36,305</u>
Total assets.....	182,763
Liabilities:	
Liabilities.....	<u>-</u>
Net Assets:	
Held in trust for pension benefits.....	<u>\$ 182,763</u>

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

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND**

For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Municipal Firefighters' Pension Trust Fund
<hr/>	
Additions:	
Contributions from:	
State-Firefighters' supplemental compensation trust fund.....	\$ 11,983
State-Casualty Insurance Premium Taxes.....	<u>24,322</u>
Total contributions.....	36,305
Investment Income:	
Interest earnings	<u>324</u>
Total investment income	<u>324</u>
Total additions.....	36,629
Deductions:	
Administrative expenses.....	<u>606</u>
Total deductions.....	<u>606</u>
Net increase.....	36,023
Net Assets Held in Trust for Pension Benefits:	
Beginning of year.....	<u>146,740</u>
End of year.....	<u>\$ 182,763</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Ponce Inlet, Florida (the "Town"), have been prepared in conformance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of the Town's significant accounting policies:

A. Reporting Entity

The Town of Ponce Inlet, Florida, is a municipal corporation created by the Laws of Florida, located in Volusia County. The Town was originally incorporated under the general laws of Florida in May 1963 under the provisions House Bill No. 1133 (amending Article 2, Section 4, of Chapter 63-1829, Laws of Florida, Special Acts of 1963), and the Municipal Home Rule Power Act, F.S. Ch. 166. The legislative branch of the Town is composed of an elected five-member Town Council consisting of the Mayor and four Council members. The Town Council is governed by the Town Charter and by state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council-appointed Town Manager.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds controlled by or dependent on the Town. In evaluating the Town as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the Town's financial statements.

Discretely Presented Component Unit. The "component unit" column in the basic financial statements includes the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the "Lighthouse Association"). The financial statements of the Lighthouse Association are discretely reported in separate columns to emphasize that it is legally separate from the Town (primary government). The Lighthouse Association was created exclusively to manage the contribution of citizen efforts, services and resources in the development, restoration, improvement and operation of the Ponce DeLeon Inlet Lighthouse, a historical site owned by the Town of Ponce Inlet, under the terms of a maintenance agreement dated May 22, 1985.

The Lighthouse Association was created as a non-profit corporation and is exempt from income taxes under the provisions of Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Under its corporate charter, the Lighthouse Association must devote at least 70% of its gross receipts to undertaking its stated purpose. Furthermore, the Town Council has the authority to disapprove any activity(ies) of the Lighthouse Association deemed not to be in harmony with the responsibilities of the Town and all Lighthouse Association assets revert to the Town upon its dissolution.

Complete financial statements of the component unit can be obtained directly from the Association's administrative offices, which is as follows:

Administrative Office:
Ponce DeLeon Inlet Lighthouse Preservation Association, Inc.
4931 South Peninsula Drive
Ponce Inlet, FL 32127

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report aggregated information for the overall government for all of the activities of the primary government and the discretely presented component unit. The primary government is reported in two columns to separately report governmental activities from business-type activities. Component unit data is aggregated into a single column. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange revenues are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

The statement of net assets presents the overall government's financial position at year-end. The statement of activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net assets for the period. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the government, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other nonexchange revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual business-type funds are reported in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 3 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, intergovernmental revenue, licenses and permits, charges for services, and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Nonexchange transactions are grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

- *Derived Tax Revenue*, defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.
- *Imposed Nonexchange Revenue*, result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.
- *Government-mandated Nonexchange Transactions*, frequently establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and the recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often offer resources on a reimbursement (Aexpenditure-driven@) basis at the time the recipient has incurred allowable costs under the applicable program.
- *Voluntary Nonexchange Transactions*, result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as deferred revenue.

Proprietary fund and pension trust fund financial statements are reported using the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Based on the accounting and reporting standards set forth in Government Accounting Standards Board Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*”, the Town has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989, as it pertains to the accounting for proprietary fund activity.

The Town’s accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The focus of the governmental and proprietary fund financial statements is on major funds, as defined and determined based on criteria established under Governmental Accounting Standards Boards Statement No. 34.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Debt Service Fund* is a debt service fund established by the Town to separately account for the resources accumulated and payments made for principal and interest on general long-term debt of the Town's governmental funds.
- The *Public Land Acquisition and Facility Fund* is a special revenue fund established by the Town pursuant to Section 2-322 of the Town's Code of Ordinances to account for the accumulation of franchise fees on garbage services and public service taxes in the sale of electricity, metered natural gas, liquefied petroleum and manufactured gas which shall be expended on acquiring real estate and for the construction of public facilities.
- The *143 Beach Street Capital Projects Fund* is a capital projects fund established by the Town to separately account for the grant related expenditures associated with the restoration of the Meyer-Davis House and Hasty Cottage/Post Office Restoration Project.

The Town reports the following major proprietary funds:

- The *Water Utility Fund* accounts for the activities of the Town's potable water utility system, the costs of which are recovered by user charges.
- The *Sewer Utility Fund* accounts for the activities of the Town's sewer utility system, which is owned and operated by the City of Port Orange. The costs of wastewater collection and pumping systems are recovered by user charges billed to customers by the Town pursuant to customer rate schedules established by Port Orange. All utility service amounts billed by the Town, and collected from its customers, are subsequently remitted to the City of Port Orange.
- The *Refuse Utility Fund* accounts for the activities of the Town's refuse collection system which provides the community with refuse and recycling services provided by third-party contracted vendors, the costs of which are recovered by user charges.

Additionally, the Town reports the following fund types:

- *Special Revenue Funds* - are used to account for the proceeds of specific revenue sources (other than special assessments, or capital projects) which are legally restricted to finance particular functions or activities of the Town. These funds include the Ponce Preserve Fund, Tree Bank Fund, Timucuan Oaks Fund, Sidewalks Fund, Parks and Recreation Fund, Police Education Fund and Contraband/Forfeitures Fund.
- *Capital Projects Funds* - are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Town has one fund - Land Acquisition Capital Projects Fund.
- *Pension Trust Fund* - The pension trust fund (Municipal Firefighters' Pension Trust Fund) is accounted for by the Town to provide data on the accumulation of financial resources to pay pension benefits to qualified volunteer participants in the Town's Fire pension trust fund.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund Town activities has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, when applicable. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for utility sales and services. The Town recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the water system. Impact and connection fees are also assessed and collected from sewer customers which are remitted directly to the City of Port Orange to recover their costs connecting new customers to the sewer system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, state-approved mutual fund investments and short-term investments with original maturities of three months or less from the date of acquisition.

The Town's has developed its own unique investment policies pursuant to Chapter 218, Florida Statutes, which authorize the government to invest in the Local Government Surplus Funds Trust Fund, authorized intergovernmental investment pools, Securities and Exchange Commission registered money market funds (with rating exceptions), interest-bearing time deposits or savings accounts in qualified public depositories and direct obligations of the U.S. Treasury.

All of the Town's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares. All fiduciary (fire pension) fund investments are stated at fair value.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds”)i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends. Utility operating sales are generally recognized on the basis of cycle billings rendered quarterly. Unbilled water, sewer and refuse accounts receivable are accrued by the Town at September 30th, to recognize the sales revenues earned between the last meter reading dates made in mid-September through the end of the fiscal year.

3. *Inventories and Prepaid Items*

All inventories are valued at the lower of actual cost or market and consist of the merchandise held for sale in the Lighthouse Association gift shop (a discretely presented component unit).

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

4. *Restricted Assets*

Certain proceeds from the imposition of the Town’s impact fee requirements and from building permits are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable legal indentures.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, certain infrastructure assets, office furniture, fixtures and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements. Property, plant and equipment with initial, individual costs that equal or exceed \$750 and have estimated useful lives of over one year are recorded as capital assets. Infrastructure assets are capitalized when their costs exceed \$5,000 and possess useful lives of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as a component of the capitalized value of the asset constructed, when applicable.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Depreciation is provided for by utilization of the straight-line method calculated on a service-life basis to amortize the cost of the assets over their economic estimated useful lives which are as follows:

Buildings	15 - 40 years
Source of supply plant.....	25 - 50 years
Pumping plant	25 - 50 years
Water treatment plant.....	25 - 50 years
Transmission and distribution plant.....	25 - 50 years
Infrastructure.....	15 - 50 years
Equipment	3 - 25 years

Pursuant to GASB Statement No. 34, an extended period of deferral was previously available before the optional requirement to record and depreciate infrastructure assets acquired before the implementation date became effective. As a Phase 3 government, the Town was not required to report major general infrastructure assets retroactively and, as such, has elected to not include these assets in their basic financial statements. As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure asset projects completed before October 1, 2003. However, they do reflect those assets that were completed subsequent to that date.

6. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused personal leave time and benefits. All personal leave credits are accrued when incurred in the government wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

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

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Debt issuance costs, when incurred, are deferred and amortized over the life of the obligations using the effective interest method.

9. Fund Equity

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

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

10. Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

Following the governmental fund balance sheet is a reconciliation of the fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. A detailed explanation of these differences is provided in this reconciliation.

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation of the net changes in fund balances B total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - An annual budget was adopted for the Town's governmental funds. The basis on which the budgets were prepared is consistent with generally accepted accounting principles for the fund. The Town uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or before August 1st, the Town Manager submits a preliminary budget to the Town Council for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the Town Council, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The Town Council, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Section 6.04 of the Town Charter. Prior to the end of the fiscal year, supplemental appropriations are typically made for unanticipated spending requirements by the Council.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

- The Town Council must approve all inter-departmental budget amendments and/or appropriations transfers. The Town Manager is authorized to approve all intra-department budget amendments.
- Budgetary control is exercised at the fund level.
- Every appropriation lapses at the close of the fiscal year.

NOTE 4 - PROPERTY TAX CALENDAR

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The ad valorem millage rate assessed by the Town (2009 levy) was 4.0300 mills. Collections on this levy were received during the year ended September 30, 2010. The Town’s property tax calendar is as follows:

Assessment Roll Valuation Date January 1

Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations. July 1

Town Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year. September

Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date). November 1

A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November through March, with the following applicable discounts: November 1

<u>Month Paid</u>	<u>Discount</u>
November	4%
December	3%
January	2%
February	1%
March	None

All unpaid taxes on real/tangible personal property become delinquent. April 1

Listings of unpaid real and personal property taxes are advertised. April/May

Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date). June 1

A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes August

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 5 - DEPOSITS AND INVESTMENTS

Deposits. At September 30, 2010, the carrying value of the Town’s cash deposit accounts totaled \$3,306,500 and the bank balance totaled \$3,578,182. The cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes and are fully insured and/or collateralized. Amounts do not include \$450 in cash funds on hand at the end of the fiscal year. At September 30, 2010, the carrying value of the Lighthouse Association’s bank deposits totaled \$613,314. The bank balances for these deposits totaled \$613,314, all of which was insured and/or collateralized. Bank deposits held in trust in the fiduciary fund totaled \$146,458 at September 30, 2010, of which \$46,446 was insured by federal depository insurance.

Investments. As of September 30, 2010, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)		
		Less Than 1	From 1 - 5	From 6 - 10
Certificates of deposit.....	\$ 2,000,000	2,000,000	-	-
Local Government Investment Pool:				
State Board of Administration, Local Government Surplus Trust Fund Investment Pool				
Florida PRIME.....	37,732	37,732	-	-
Fund B.....	<u>67,573</u>	<u>-</u>	<u>-</u>	<u>67,573</u>
Totals.....	<u>\$ 2,105,305</u>	<u>2,037,732</u>	<u>-</u>	<u>67,573</u>

The Town’s investments consist of amounts invested in certificates of deposit and the Local Government Surplus Trust Fund managed by the Florida State Board of Administration (SBA). The SBA is part of the Local Government Surplus Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. As a Florida PRIME and Fund B pool participant, the Town invests in a pool of investments whereby the Town owns a share of the respective pool, not the underlying securities. The assets held in Fund B are presently restricted and the Town is prohibited from withdrawing any amounts from the pool.

In March 1997, GASB issued Statement 31, titled “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” GASB 31 applies to the Florida PRIME and Fund B.

GASB 31 outlines the two options for accounting and reporting for money market investment pools as either “2a-7 like” or fluctuating net asset value (NAV). GASB 31 describes a “2a-7 like” pool as an “external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the “1940 Act”). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions.

The SBA’s interpretation of GASB 31 is that the Florida PRIME is currently considered an SEC 2a-7 like fund, thus your account balance should also be considered the fair value of your investment. The SBA’s interpretation in regards to Fund B is that it does not meet the requirements of an SEC 2a-7 like fund; therefore, SBA is

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

providing a fair value factor (i.e. total net asset value of Fund B divided by total participant balances of Fund B) for September 30, 2010. The fair value of the original \$95,567 (at cost) investment in Fund B is \$67,573 as of September 30, 2010, based on the fair value factor of 0.707058 reported by the trustees of Fund B.

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Town has developed formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments are governed by the Town's Investment Policies and related state statutes. Generally, the Town limits the acquisition of investments with maturities of greater than twenty-four months, unless such investments are purchased for holding to maturity. Interest rate risk is minimized for all other investments, which are normally held for periods of less than six months.

GASB 40, "Deposit and Investment Risk Disclosures," requires that interest rate risk be disclosed using one of the five approved methods for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a-7 like pool. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

At September 30, 2010, the WAM of the Florida PRIME is 52 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB 40 is not available. An estimate of weighted average life (WAL) is available. In the calculation of WAL, the time at which an expected principal amount is to be received (measured in years) is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL (based on expected future cash flows) of Fund B at September 30, 2010, is estimated at 7.49 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

Credit Risk. The Town's investment policies allow the government to invest in Local Government Surplus Trust Fund Investment Pool, United States Government Securities, United States Government Agencies, federal instrumentalities, interest bearing time deposits or savings accounts, repurchase agreements, commercial paper, bankers' acceptances, state and/or local governmental taxable and/or tax-exempt debt, registered investment companies (money market and mutual funds), and authorized intergovernmental investment pools.

The Florida PRIME is rated by Standard and Poors, with a rating of AAAM as of September 30, 2010; Fund B is not rated by any nationally recognized statistical rating agency.

Concentrations of Credit Risk. The Town's Investment Policies place limits on portfolio composition, individual issuers and maturity limitations, all of which vary for each allowable investment type. Supplemental due diligence requirements have been established that must be met prior to investing with registered investment companies and intergovernmental investment pools.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a failure of a depository, the Town's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State’s Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer’s office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2010, the carrying amount of the Town’s deposits in the Local Government Surplus Funds Trust Fund was \$105,304, all of which was covered by collateral securities in accordance with the Act. All remaining deposits and investments were adequately covered by federal depository insurance and/or the statutory provisions of the Act, with the exception of \$100,012 held in the fiduciary fund, which was not covered.

NOTE 6 - RECEIVABLES

A summary of receivables at September 30, 2010, is as follows:

Receivable	Primary Government			Component
	Government Activities	Business Type Activities	Total	Unit
Accounts receivable.....	\$ 106,632	23,479	130,111	-
Delinquent taxes receivable.....	3,170	-	3,170	-
Unbilled accounts receivable.....	-	189,441	189,441	-
Due from other governments.....	<u>133,570</u>	<u>13,708</u>	<u>147,278</u>	-
	243,372	226,628	470,000	-
Less: allowance for doubtful accounts.....	-	(4,722)	(4,722)	-
Net receivables.....	<u>\$ 243,372</u>	<u>221,906</u>	<u>465,278</u>	-

NOTES TO THE FINANCIAL STATEMENTS – (Continued)
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

NOTE 7 – INTERFUND BALANCES

Interfund transfers that occurred during the year ended September 30, 2010, are as follows:

	Transfer <u>From</u>	Transfer <u>To</u>
Governmental Activities:		
General Fund:		
Debt Service Fund.....	\$ -	296,480
Tree Bank Special Revenue Fund.....	-	5,000
143 Beach St. Capital Projects Fund.....	-	10,378
Water Utility Fund.....	643	-
Sewer Utility Fund.....	8,577	-
Refuse Utility Fund.....	17,618	-
Debt Service Fund:		
General Fund.....	296,480	-
Public Land Acquisition and Facility Fund.....	326,934	-
Sewer Utility Fund.....	10,000	-
Refuse Utility Fund.....	10,000	-
Public Land Acquisition and Facility Fund:		
Debt Service Fund.....	-	326,934
Land Acquisition Capital Projects Fund.....	276	-
143 Beach St Capital Projects Fund:		
General Fund.....	10,378	-
Tree Bank Special Revenue Fund.....	10,000	-
Nonmajor Funds:		
Tree Bank Special Revenue Fund:		
General Fund.....	5,000	-
Capital Projects Fund.....	-	10,000
Land Acquisition Capital Projects Fund:		
Public Land Acquisition and Facility Fund.....	-	276
Water Utility Fund.....	-	75,843
	<u>695,906</u>	<u>724,911</u>
		<u>29,005</u>
Business-type Activities:		
Water Utility Fund:		
General Fund.....	-	643
Public Land Acquisition and Facility Fund.....	75,843	-
Sewer Utility Fund:		
General Fund.....	-	8,577
Debt Service Fund.....	-	10,000
Refuse Utility Fund:		
General Fund.....	-	17,618
Debt Service Fund.....	-	10,000
	<u>75,843</u>	<u>46,838</u>
	<u>29,005</u>	
Totals - All funds.....	<u>\$ 771,749</u>	<u>771,749</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities

The following is a summary of changes in capital assets during the year:

	Balances <u>9/30/2009</u>	Additions	Deletions	Balances <u>9/30/2010</u>
Capital assets, not being depreciated,				
Land.....	\$ 4,317,124	16,532	-	4,333,656
Construction in progress.....	<u>212,276</u>	<u>240,526</u>	<u>(424,373)</u>	<u>28,429</u>
	<u>4,529,400</u>	<u>257,058</u>	<u>(424,373)</u>	<u>4,362,085</u>
Capital assets, being depreciated,				
Buildings.....	5,301,475	288,562	-	5,590,037
Improvements other than buildings.....	4,400,199	127,204	-	4,527,403
Equipment and furniture.....	<u>2,653,725</u>	<u>120,656</u>	<u>(20,388)</u>	<u>2,753,993</u>
	12,355,399	536,422	(20,388)	12,871,433
Less: accumulated depreciation.....	<u>(3,262,522)</u>	<u>(507,214)</u>	<u>16,288</u>	<u>(3,753,448)</u>
	<u>9,092,877</u>	<u>29,208</u>	<u>(4,100)</u>	<u>9,117,985</u>
Net capital assets-governmental activities....	<u>\$ 13,622,277</u>	<u>286,266</u>	<u>(428,473)</u>	<u>13,480,070</u>

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

Governmental activities:	
General government.....	\$ 177,317
Public safety.....	160,459
Physical environment.....	119,324
Transportation.....	747
Culture/recreation.....	<u>49,367</u>
Total depreciation expense-governmental activities.....	<u>\$ 507,214</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

B. Business-Type Activities

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2009	Additions	Deletions	Balances 9/30/2010
Capital assets, not being depreciated,				
Land.....	\$ 4,033	-	-	4,033
Construction in progress.....	338,151	134,619	(472,770)	-
	<u>342,184</u>	<u>134,619</u>	<u>(472,770)</u>	<u>4,033</u>
Capital assets, being depreciated,				
Improvements other than buildings.....	2,947,864	261,275	-	3,209,139
Equipment and furniture.....	126,201	3,600	-	129,801
	3,074,065	264,875	-	3,338,940
Less: accumulated depreciation.....	(1,388,895)	(118,295)	-	(1,507,190)
	<u>1,685,170</u>	<u>146,580</u>	<u>-</u>	<u>1,831,750</u>
Net capital assets-business activities.....	<u>\$ 2,027,354</u>	<u>281,199</u>	<u>(472,770)</u>	<u>1,835,783</u>

There was no capitalized interest on outstanding tax-exempt debt obligations charged to completed and uncompleted projects during the year. There were no interest earnings recognized from the temporary investment of tax-exempt debt proceeds during the year. Depreciation expense for the year ended September 30, 2010 totaled \$118,295.

C. Discretely Presented Component Unit – Lighthouse Association

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2009	Additions	Deletions	Balances 9/30/2010
Capital assets, not being depreciated,				
Land.....	\$ 407,450	-	-	407,450
Museum artifact collection.....	403,318	26,200	-	429,518
	<u>810,768</u>	<u>26,200</u>	<u>-</u>	<u>836,968</u>
Capital assets, being depreciated,				
Restoration and improvements.....	2,643,321	-	-	2,643,321
Equipment and furniture.....	273,994	35,791	-	309,785
	2,917,315	35,791	-	2,953,106
Less: accumulated depreciation.....	(909,208)	(91,329)	-	(1,000,537)
	<u>2,008,107</u>	<u>(55,538)</u>	<u>-</u>	<u>1,952,569</u>
Net capital assets-component unit.....	<u>\$ 2,818,875</u>	<u>(29,338)</u>	<u>-</u>	<u>2,789,537</u>

Depreciation expense for the year ended September 30, 2010 totaled \$91,329.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 9 - LEASE INCOME

The Town entered into an operating lease agreement to lease a portion of its real property for the construction of a cellular telephone tower. This lease was dated February 9, 2000, and had an initial term of five years, with four successive five-year renewal options. The second of the four successive five-year renewals was exercised in 2010, and will expire in 2015. The lease provides for annual rentals of \$18,648 throughout the second five-year extension period ending in 2015, \$20,793 for the third five-year extension period ending in 2020, and \$23,184 for the fourth five-year extension period ending 2025. This agreement shall continue in force for one-year periods if the agreement has not been terminated at the end of the fourth five-year extension, with rentals equal to that of the final five-year extension term. Lease revenue totaled \$18,648 for the year ended September 30, 2010. There was no revenue from subleases or assignments. Future minimum rentals to be received over the noncancelable remaining term of the lease are as follows: 2011 - \$18,648; 2012 - \$18,648; 2013 - \$18,648; and 2014 - \$18,648.

NOTE 10 - OPERATING LEASES

The Town leases equipment under operating leases and with the exception of the non-cancelable operating lease listed below, these leases have cancellation provisions and are subject to annual appropriations. For the year ended September 30, 2010, lease expenditures totaled \$10,387 for all types of leases.

Non-cancelable Lease. The Town leases office equipment under an agreement with an original term of five years, which is scheduled to expire in December, 2011. The minimum lease payments under this lease agreement are as follows: 2011 - \$7,887; and 2012 - \$1,972.

NOTE 11 - LONG-TERM DEBT

The Town's long-term debt is comprised of the following at September 30, 2010:

A. Primary Government – Governmental Activities

Capital Improvement Revenue Note, Series 2005

In April 2005, the Town issued a Capital Improvement Revenue Note, Series 2005, which was originally issued for \$4,030,000 and is payable through July 2025. Proceeds from the note were used to finance the acquisition of real property and for related capital improvements. The note is secured by a pledge of the Town's electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee. The note bears interest at a fixed rate of 4.11% with principal payments due annually through July 2025. The balance due on this obligation at September 30, 2010 totaled \$3,622,957. The total remaining principal and interest to be paid on the note totals \$4,925,212. During the current year, electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee revenue was \$587,385, compared to annual debt requirements of \$327,975.

Clean Water State Revolving Fund Loan

In October 2004, the Town entered into a state revolving fund loan agreement with the State of Florida Department of Environmental Protection to finance the planning, design, and construction of stormwater pollution control facilities. The loan is secured by specific pledged revenues which include the Town's cell tower lease revenue, one to six cents local option fuel taxes, telecommunications excise taxes and a pledged annual transfer of \$25,000 from

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

the utility enterprise fund. The original loan bears interest at 2.95% per annum for the first disbursement of \$96,559, 2.65% per annum for the first loan amendment disbursement of \$1,668,216, and 2.57% for the second loan amendment disbursement of \$303,500 and 2.62% for the third loan amendment disbursement of \$303,500. The loan is payable in semiannual payments due in March and September and becomes due in September 2026. The aggregate balance due on this obligation at September 30, 2010 was \$2,082,128. The total remaining principal and interest to be paid on the loan totals \$2,583,664. During the current year, the pledged revenues identified above totaled \$397,487, compared to annual debt requirements of \$156,585.

Loan Restrictions and Covenants - Pursuant to Sections 3.01 and 6.01 of the Loan Agreement, the Town is required to make Monthly Loan Deposits to the Loan Debt Service Account equal to one-sixth of the next succeeding semi-annual interest and principal payments. In the event of a failure to make the Monthly Loan Deposits, the Town is required to promptly notify the State of Florida Department of Environmental Protection of any such failure. During the year ended September 30, 2010, the Town did not make the mandatory monthly transfers for the period from October 2009 through February 2010. Instead the Town funded the equivalent of the the whole year’s transfers on March 21, 2010.

Capital Lease Obligation

In February 2009, the Town entered into a capital lease obligation for the acquisition of machinery and equipment for the Town’s fire department. This obligation was originally payable in annual installments of \$39,365 through February 2014 at a stated interest rate of 3.25%. All obligations associated with this lease were paid in full during the year ended September 30, 2010. No balance was due on this obligation at September 30, 2010.

Changes in Long-Term Debt

A summary of changes in the Town’s governmental activities long-term debt for the year is as follows:

	<u>Balances</u> 9/30/2009	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 9/30/2010
Notes payable:				
Capital Improvement Revenue Note, Series 2005.....	\$ 3,794,957	-	(172,000)	3,622,957
Florida Department of Environmental Protection State Revolving Fund Loan.....	2,132,186	-	(50,058)	2,082,128
Capital lease obligation:				
\$179,000 capital lease dated 02/20/2009.....	<u>179,000</u>	<u>-</u>	<u>(179,000)</u>	<u>-</u>
	6,106,143	-	(401,058)	5,705,085
Compensated absences.....	<u>316,238</u>	<u>63,248</u>	<u>(123,210)</u>	<u>256,276</u>
 Total long-term debt.....	 <u>6,422,381</u>	 <u>63,248</u>	 <u>(524,268)</u>	 5,961,361
 Less: current maturities.....				 <u>(333,185)</u>
 Net long-term debt.....				 <u>\$ 5,628,176</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)
 September 30, 2010
 TOWN OF PONCE INLET, FLORIDA

Debt Service To Maturity

Aggregate debt service requirements to maturity on long-term debt obligations are as follows:

Fiscal Year Ended September 30,	Capital Improvement Note Series 2005		FDEP State Revolving Fund Loan		Total
	Principal	Interest	Principal	Interest	
2011.....	\$ 179,000	148,905	154,185	80,694	562,784
2012.....	187,000	141,548	106,223	50,363	485,134
2013.....	195,000	133,863	109,054	47,532	485,449
2014.....	203,000	125,848	111,961	44,624	485,433
2015.....	211,000	117,505	114,946	41,640	485,091
2016-2020.....	1,192,000	450,168	622,362	160,567	2,425,097
2021-2025.....	1,455,957	184,375	709,869	73,060	2,423,261
2026.....	-	-	153,528	3,057	156,585
Total - all periods.....	<u>\$ 3,622,957</u>	<u>1,302,212</u>	<u>2,082,128</u>	<u>501,537</u>	<u>7,508,834</u>

B. Primary Government – Business-Type Activities

The Town has no formal long-term debt obligations for business-type activities as of September 30, 2010. However, the Town provides for the recognition of compensated absences within the department which an employee serves.

Changes in Long-Term Debt

A summary of changes in the Town’s business-type activities long-term debt for the year is as follows:

	Balances 9/30/2009	Additions	Deletions	Balances 9/30/2010
Compensated absences.....	<u>28,148</u>	<u>5,630</u>	<u>(11,888)</u>	<u>21,890</u>
Total long-term debt.....	<u>28,148</u>	<u>5,630</u>	<u>(11,888)</u>	<u>21,890</u>
Less: current maturities.....				<u>-</u>
Net long-term debt.....				<u>\$ 21,890</u>

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 12 – EMPLOYEES’ PENSION PLANS

A. Florida Retirement System - Full-time Police Officers, Firefighters and General Employees

Plan Description. The Town contributes to the Florida (public employee) Retirement System of the State of Florida, a cost-sharing, multiple-employer defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida. The pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Florida Retirement System, Department of Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000, or calling 850-488-5706.

Prior to October 1, 2007, the Town’s full-time police officers and firemen were the only participants in the Florida Retirement System. Subsequent to that date, the Town’s general employees were added to the System.

Funding Policy. The FRS funding policy provides for required monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

The Town’s contributions to the plan for the fiscal years ended September 30, 2010, 2009, and 2008 were \$337,796, \$356,277, and \$604,789, respectively. The Town’s 2008 contribution includes \$275,325 paid for back funding all eligible general participants that entered the system effective October 1, 2007. There were no employee contributions made during these years. The following is a summary of employer contribution percentages for qualifying compensation paid to general and special risk participants in effect during each of the past three fiscal years ended September 30, 2010, 2009, and 2008 by retirement plan periods (rates specified below include an additional 1.11% for the Town’s option to include the health insurance subsidy contribution):

	<u>General</u>	<u>Special Risk</u>
From July 1, 2006 to June 30, 2010.....	9.85%	20.92%
From July 1, 2010 to June 30, 2011.....	10.77%	23.25%

B. Defined Benefit Pension Plan - Municipal Firefighters’ Pension Trust Fund

Plan Description. The Town contributes to the Town of Ponce Inlet Municipal Firefighters’ Pension Trust Fund (the “Plan”), a single-employer defined benefit plan, which is administered by the Plan’s Board of Trustees in accordance with the provisions of Chapter 175, Florida Statutes.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

All part-time and volunteer firefighters are eligible to participate in the Plan after employment. Benefits vest with eligible employees after five years of participation. The funding methods and the determination of benefits payable are provided in the various acts of the Florida Legislature, which created the funds, including subsequent amendments thereto. More information relating to the funding methods, determination of benefits, and permissible investments for the Plan can be found in Chapter 175, Florida Statutes. These statutes provide, in general, that funds are to be accumulated from employee contributions, Town contributions, State appropriations and income from investments from accumulated funds. The act also provides that should the accumulated funds at any time be insufficient to meet and pay the benefits due, the Town shall supplement the funds by an appropriation from current funds or from any revenues which may be lawfully used for said purposes in an amount sufficient to make up the deficiency. The investments of the Plan are administered, managed, and operated by the Plan's boards of trustees using the services of the Town staff and a local financial institution.

Pursuant to the provisions of Ordinance 2007-06, part-time and volunteer uniformed firefighters are eligible to participate in the Fire Plan upon employment with the Town. Employees vest with full benefits after 5 years of credited service. Normal retirement is available at the earlier of age 55 and 5 years of credited service or 25 years of credited service, regardless of age. Early retirement (reduced) benefits are available at the age of 50 with 5 years of credited service. An independent actuary appointed by the Board of Trustees actuarially determines benefits to be paid to retirees.

Current membership in the Plan is composed of the following:

Participant data as of October 1, 2008, the date of the most recent actuarial impact statement:	
Retirees and beneficiaries currently receiving benefits.....	0
Beneficiaries receiving death benefits	0
Vested terminated employees	0
Active employees:	
Fully vested.....	0
Nonvested	<u>3</u>
Total participants.....	<u>3</u>

Summary of Significant Accounting Policies of the Plans. The accrual basis of accounting is utilized in presenting the Plan's statements of fiduciary net assets and changes in fiduciary net assets held in trust for benefits. Plan receivables are short term and consist of contributions due from the Town, State and/or from plan members, when applicable. Plan liabilities would generally include benefits due to plan members and beneficiaries and accrued investment and administrative expenses which are recognized when due and payable in accordance with the terms of the Plan. The difference between total plan assets and total plan liabilities at the reporting date are captioned net assets held in trust for pension benefits reserved for employees' pension benefits and represent the net assets held in trust for pension benefits.

Investments are reported at fair value and are managed by the Board of Trustees. When applicable, investments that do not have an established market are reported at estimated fair value. Performance reporting, administrative expenses and the Town's asset valuation are based on the custodians' determination of value.

Contribution Requirements and Contributions Made. The Town provides contributions to the Plan under the authority of Chapter 175, Florida Statutes, and pursuant to Town ordinances. Employees covered under the Plan

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

are required to make contributions of 5% of their compensation. The Town is required to contribute the remaining amounts necessary to fund the Plan based on the funding amounts determined by the Plan’s actuary.

The Town has adopted GASB Statement No. 27 on pension accounting and reporting. This statement requires the computation of a net pension obligation (NPO) or asset which would result if the Town’s contribution to the Plan did not equal the annual pension cost as computed by the plan’s actuaries. During the current year, the Town evaluated the Plan to determine the net pension obligation or assets at the end of the most recent actuarial valuation.

The annual pension cost and net pension obligation of the Plan (based on the most recent actuarial valuation dated October 1, 2008) were as follows:

<u>Fiscal Year Ending</u>	<u>Actuarially Required Contribution</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2006.....	\$ 0	100%	\$ 0
09/30/2007	0	100%	0
09/30/2008.....	0	100%	0

The development of the Net Pension Obligation (NPO) to date has not been provided by the actuaries since no net pension obligations exists at year end.

An actuarial valuation was prepared for the Plan in accordance with GASB Statements No. 25 and 27. Significant actuarial assumptions used in the valuation for the Plan are as follows:

Contribution rates as of 09/30/2008:	
Town (employer)	0.0%
Plan Members	5.0%
Annual pension cost.....	\$ 0
Contributions made	\$ 0
Actuarial valuation dates	10/01/2005
Actuarial cost method.....	Entry Age Normal
Amortization method.....	Closed, level dollar
Remaining amortization period	30 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return.....	8.0%
Projected salary increases *	n/a
*Includes inflation at	n/a
Cost of living adjustments	3.0%

Related Party Transactions. The Town held no securities which were included in the assets of the Plan.

Required Supplementary Information. The required supplementary information pursuant to GASB No. 25 is contained in Schedules 1 and 2 presented immediately following these notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

C. Defined Contribution Plans - General Employees

Florida Municipal Pension Trust Fund (the “FMPTF”) - The Town participates in a qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a) to receive fixed employer contributions, which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Section 2-221 of the Town’s Code of Ordinances, the Town established this plan for all regular full time and regular part time employees, except police officers and firefighters. All qualifying employees, with no age requirement, are eligible to participate in the plan immediately upon the date of employment. Employer contributions to the plan were 10% of the gross employee wages. Employees do not vest in employer contributions to the 401 Plan until after participating for 5 full years in the plan, at which time employees are 100% vested in the Plan.

To accommodate both employer and employee contributions, the Town also offers all employees participation in an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457(b), and Section 2-291 of the Town’s Code of Ordinances, to receive employee contributions. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 Plan. The vested portions of the accounts or contributions to the plan are available to the participants immediately upon termination of service. The Town has the power to amend plan provisions at any time.

On August 15, 2007, the Town Council adopted Ordinance 2007-20, amending the pension plan for general employees to allow for the conversion to the Florida Retirement System, effective October 1, 2007. As a result of these actions, twenty-two employees opted to withdraw from the above described retirement plan options and convert to the Florida Retirement System. Seven employees remained in the Plans. No new employees will be eligible for entry in the 401(a) plan after October 1, 2007.

The required employer contributions to the 401(a) Plan for the fiscal years ended September 30, 2010, 2009, and 2008, were \$7,335, \$26,138, and \$23,526, respectively. Employee contributions to the discretionary 457 Plan for the fiscal years ended September 30, 2010, 2009, and 2008 were \$9,262, \$8,742, and \$10,196, respectively.

International City Management Association Retirement Corporation (the “ICMA”) - The Town participates in a qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a) to receive fixed employer contributions, which is administered by ICMA, 777 N. Capitol Street NE, Washington, DC 20002-4240. Under Section 2-291 of the Town’s Code of Ordinances, the Town also contributes to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by ICMA. The Town’s employees are eligible to participate in the 457 Plan immediately upon the date of employment. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan.

The required employer contributions to the 401(a) Plan for the fiscal year ended September 30, 2010, 2009, and 2008 were \$0-, \$14,162, and \$8,570, respectively. Employee contributions to the 457 Plan for the fiscal years ended September 30, 2010, 2009, and 2008, were \$5,229, \$8,683, and \$11,638, respectively.

Nationwide Retirement Solutions - Under Section 2-291 of the Town’s Code of Ordinances, the Town’s employees may contribute to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by Nationwide Retirement Solutions, P. O. Box 182797, Columbus, OH 43218-2797. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan. Employee contributions to the 457 Plan for the fiscal years ended September 30, 2010, 2009, and 2008, totaled \$21,474, \$18,559, and \$18,219, respectively.

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Town is required to develop and administer a formal single-employer postemployment benefit plan in accordance with the requirements of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which became effective for financial statements issued at September 30, 2010. Pursuant to Section 112.0801, Florida Statutes, the Town must permit participation in the plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Eligible individuals include all regular employees of the Town who retire from active service under the pension plans sponsored by the Town. Under certain conditions, eligible individuals also include spouses and dependent children. As of September 30, 2010, the Town has not developed a formal OPEB plan. Management has determined that the unrecognized OPEB liability is not material through estimates obtained from the alternative measurement method for employers with fewer than one hundred plan members.

Funding Policy. The contribution requirements of plan members and the Town are based on composite health insurance premium costs which are established by state statutes and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. The Town has opted to not fund the net OPEB obligation or the resulting unfunded actuarial accrued liability on an annual basis.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation to the Plan based on the most recent estimate dated September 30, 2010:

	<u>Estimated 09/30/2010</u>
Annual required contribution (ARC).....	\$ 9,254
Net OPEB obligation-beginning of year.....	<u>0</u>
Net OPEB obligation-end of year.....	<u>\$ 9,254</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/10	\$9,254	-	\$9,254
09/30/09	N/A	-	N/A
09/30/08	N/A	-	N/A

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Funded Status and Funding Progress. As of September 30, 2010, the plan was not funded. The actuarial accrued liability for benefits has been estimated by use of the alternative measurement method to be \$53,866, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$53,866. The covered payroll (annual payroll of active employees covered under the plan) was \$2,290,409, and the ratio of the UAAL to the covered payroll was 2.35%.

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

Actuarial Methods and Assumptions. Calculations are required to be based upon the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Management has elected to determine the liability using the alternative measurement method for employers with fewer than one hundred plan members. The Town’s estimate is based on the following assumptions:

Expected investment return on Town funds	0.5%
Monthly premium for single health coverage	\$489
Expected retirement age	59.4 yrs
Percent of employees expected remain after retirement ⁽¹⁾	5.0%
Number of employees	48
Number of retirees.....	0
Number of spouses covered by plan.....	8
Average age of employees	49.7 yrs
Average years of service	7.4 yrs

⁽¹⁾ The Town has provided an initial estimate of 5% of its present workforce will remain in the health insurance program after retirement even though the Town’s employment records document that no active employees who have retired in the last ten years have opted to subsequently remain as a member in the Town’s health insurance plan and make premium payments as authorized in Section 112.0801, Florida Statutes

NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

NOTE 14 - EXCESS EXPENDITURES OVER APPROPRIATIONS

The Parks and Recreation (nonmajor) Special Revenue Fund incurred expenditures in excess of appropriations in the amount of \$334. The excess resulted from the Town failing to amend its operating budget for this fund. The fund balance remaining in this fund was sufficient to provide for the payment of these obligations for the year ended September 30, 2010.

NOTE 15 - DEFICIT FUND BALANCE OF INDIVIDUAL FUND

Major Fund. The 143 Beach Street Capital Projects Fund reported a fund balance deficit of \$219,144 at September 30, 2010. This deficit was due to delayed collections of grant reimbursements for expenditures related to the restoration of the Meyer-Davis House and Hasty Cottage/Post Office Restoration Project. This deficit is expected to be recovered through proceeds generated from grant agreements in 2011.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

The Town is from time to time engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of the Counsel to the Town, no other legal proceedings are pending or threatened which may materially affect the financial condition of the Town.

NOTE 17 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through March 31, 2011, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Taxes:				
Property taxes.....	\$ 2,985,801	2,993,501	2,952,425	(41,076)
Local option gas taxes.....	135,293	135,293	155,899	20,606
Insurance premium taxes.....	-	-	24,322	24,322
Public service taxes.....	200,000	187,000	202,939	15,939
Local business taxes.....	<u>18,150</u>	<u>19,950</u>	<u>14,394</u>	<u>(5,556)</u>
	<u>3,339,244</u>	<u>3,335,744</u>	<u>3,349,979</u>	<u>14,235</u>
Permits and fees:				
Building permits.....	97,000	109,000	119,684	10,684
Franchise fees.....	201,000	231,500	251,319	19,819
Other permits and fees.....	<u>106,750</u>	<u>74,560</u>	<u>74,688</u>	<u>128</u>
	<u>404,750</u>	<u>415,060</u>	<u>445,691</u>	<u>30,631</u>
Intergovernmental Revenue:				
Federal Grants.....	1,000	60,375	63,485	3,110
State Grants.....	-	14,350	1,225	(13,125)
State Shared Revenues:				
State revenue sharing proceeds.....	47,516	47,516	48,729	1,213
Insurance agents licenses.....	150	-	-	-
Alcoholic beverage licenses.....	3,500	3,950	3,950	-
Local half-cent sales tax.....	126,075	131,000	143,042	12,042
Firefighters' supplemental compensation.....	6,960	6,960	18,493	11,533
Motor fuel tax rebate.....	4,800	1,800	1,907	107
Local Government Grants:				
Volusia County manatee conservation.....	1,200	1,017	1,017	-
Volusia County EMS grant.....	4,853	4,853	4,854	1
Volusia County beach beautification.....	-	-	-	-
Other Shared Revenues:				
County shared revenues.....	<u>1,100</u>	<u>1,100</u>	<u>3,566</u>	<u>2,466</u>
	<u>197,154</u>	<u>272,921</u>	<u>290,268</u>	<u>17,347</u>
Charges for services:				
General government.....	1,300	800	784	(16)
Public safety.....	28,388	29,210	30,610	1,400
Other charges.....	<u>27,095</u>	<u>27,095</u>	<u>27,095</u>	<u>-</u>
	<u>56,783</u>	<u>57,105</u>	<u>58,489</u>	<u>1,384</u>
Fines and forfeitures:				
Court cases.....	43,000	40,000	37,357	(2,643)
Local ordinance violations.....	<u>3,500</u>	<u>10,150</u>	<u>11,014</u>	<u>864</u>
	<u>46,500</u>	<u>50,150</u>	<u>48,371</u>	<u>(1,779)</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Miscellaneous Revenues:				
Investment earnings.....	\$ 42,510	47,910	66,584	18,674
Sale of fixed assets.....	2,000	3,000	3,034	34
Rents and royalties.....	18,648	18,648	18,649	1
Miscellaneous revenues.....	<u>11,650</u>	<u>44,544</u>	<u>14,669</u>	<u>(29,875)</u>
	<u>74,808</u>	<u>114,102</u>	<u>102,936</u>	<u>(11,166)</u>
 Total revenues.....	 <u>4,119,239</u>	 <u>4,245,082</u>	 <u>4,295,734</u>	 <u>50,652</u>
Expenditures:				
General Government:				
Legislative:				
Personal services.....	45,427	45,665	45,365	300
Operating expenditures.....	65,300	62,259	64,517	(2,258)
Grants and aid.....	<u>1,045</u>	<u>1,045</u>	<u>1,045</u>	<u>-</u>
	<u>111,772</u>	<u>108,969</u>	<u>110,927</u>	<u>(1,958)</u>
Executive:				
Personal services.....	283,227	225,619	224,954	665
Operating expenditures.....	<u>79,495</u>	<u>70,543</u>	<u>91,478</u>	<u>(20,935)</u>
	<u>362,722</u>	<u>296,162</u>	<u>316,432</u>	<u>(20,270)</u>
Finance:				
Operating expenditures.....	31,825	59,454	51,378	8,076
Capital outlay.....	<u>-</u>	<u>223</u>	<u>-</u>	<u>223</u>
	<u>31,825</u>	<u>59,677</u>	<u>51,378</u>	<u>8,299</u>
Legal:				
Operating expenditures.....	<u>210,000</u>	<u>228,000</u>	<u>252,992</u>	<u>(24,992)</u>
Planning and Zoning:				
Personal services.....	174,925	188,179	182,510	5,669
Operating expenditures.....	151,883	159,606	113,074	46,532
Capital outlay.....	<u>7,411</u>	<u>7,044</u>	<u>5,307</u>	<u>1,737</u>
	<u>334,219</u>	<u>354,829</u>	<u>300,891</u>	<u>53,938</u>
 Total general government	 <u>1,050,538</u>	 <u>1,047,637</u>	 <u>1,032,620</u>	 <u>15,017</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Public Safety:				
Law Enforcement:				
Personal services.....	\$ 1,116,601	1,182,476	1,168,488	13,988
Operating expenditures.....	174,720	167,426	156,896	10,530
Capital outlay.....	-	24,376	26,330	(1,954)
Grants and aid.....	200	200	-	200
	<u>1,291,521</u>	<u>1,374,478</u>	<u>1,351,714</u>	<u>22,764</u>
Fire Control:				
Personal services.....	821,895	824,556	848,358	(23,802)
Operating expenditures.....	166,046	157,879	153,424	4,455
Capital outlay.....	7,650	88,809	68,197	20,612
	<u>995,591</u>	<u>1,071,244</u>	<u>1,069,979</u>	<u>1,265</u>
Protective Inspection/Code Enforcement:				
Personal services.....	200,829	237,996	237,362	634
Operating expenditures.....	59,209	40,972	40,171	801
Capital outlay.....	1,213	1,600	1,900	(300)
	<u>261,251</u>	<u>280,568</u>	<u>279,433</u>	<u>1,135</u>
Total public safety	<u>2,548,363</u>	<u>2,726,290</u>	<u>2,701,126</u>	<u>25,164</u>
Physical Environment:				
Stormwater:				
Operating expenditures.....	<u>31,580</u>	<u>27,097</u>	<u>13,293</u>	<u>13,804</u>
Total physical environment	<u>31,580</u>	<u>27,097</u>	<u>13,293</u>	<u>13,804</u>
Transportation:				
Public Works Facilities:				
Personal services.....	183,311	171,692	166,217	5,475
Operating expenditures.....	165,893	165,716	152,675	13,041
Capital outlay.....	8,180	8,656	5,656	3,000
	<u>357,384</u>	<u>346,064</u>	<u>324,548</u>	<u>21,516</u>
Road and Street Facilities:				
Operating expenditures.....	41,570	43,270	31,691	11,579
Capital outlay.....	5,000	-	-	-
	<u>46,570</u>	<u>43,270</u>	<u>31,691</u>	<u>11,579</u>
Total transportation	<u>403,954</u>	<u>389,334</u>	<u>356,239</u>	<u>33,095</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - (Continued)
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Culture/Recreation:				
Parks and Recreation Facilities:				
Operating expenditures.....	\$ 19,556	25,243	21,494	3,749
Capital outlay.....	<u>50,485</u>	<u>1,399</u>	<u>-</u>	<u>1,399</u>
Total culture/recreation.....	<u>70,041</u>	<u>26,642</u>	<u>21,494</u>	<u>5,148</u>
Total expenditures.....	<u>4,104,476</u>	<u>4,217,000</u>	<u>4,124,772</u>	<u>92,228</u>
Excess of revenue over (under) expenditures	<u>14,763</u>	<u>28,082</u>	<u>170,962</u>	<u>142,880</u>
Other Financing Sources (Uses):				
Transfers from:				
Water Fund.....	-	643	643	-
Sewer Fund.....	-	-	8,577	8,577
Refuse Fund.....	30,480	26,195	17,618	(8,577)
Appropriated fund balance.....	95,800	252,571	-	(252,571)
Budget contingency.....	4,500	4,500	-	(4,500)
Transfers to:				
Tree Bank Fund.....	(5,000)	(5,000)	(5,000)	-
Debt Service Fund.....	(136,386)	(296,613)	(296,480)	133
Capital Projects Fund-143 Beach St.....	-	(10,378)	(10,378)	-
Water Fund.....	<u>(4,157)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>(14,763)</u>	<u>(28,082)</u>	<u>(285,020)</u>	<u>(256,938)</u>
Net change in fund balance.....	-	-	(114,058)	(114,058)
Fund Balance - Beginning of year.....	<u>3,689,615</u>	<u>3,689,615</u>	<u>3,689,615</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 3,689,615</u>	<u>3,689,615</u>	<u>3,575,557</u>	<u>(114,058)</u>

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous Revenues:				
Investment earnings (loss).....	\$ 1,050	800	1,467	667
Miscellaneous revenues.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues.....	<u>1,050</u>	<u>800</u>	<u>1,467</u>	<u>667</u>
Expenditures:				
Debt Service:				
2005 Capital Improvement Revenue Note:				
Principal payments.....	172,000	172,000	172,000	-
Interest payments.....	155,975	155,975	155,974	1
State Revolving Fund Loan:				
Principal payments.....	100,778	100,778	50,058	50,720
Interest payments.....	55,808	55,808	28,235	27,573
Capital Lease Obligation:				
Principal payments.....	33,548	179,000	179,000	-
Interest payments.....	<u>5,817</u>	<u>8,191</u>	<u>8,191</u>	<u>-</u>
	<u>523,926</u>	<u>671,752</u>	<u>593,458</u>	<u>78,294</u>
Total expenditures.....	<u>523,926</u>	<u>671,752</u>	<u>593,458</u>	<u>78,294</u>
Excess of revenue over (under) expenditures	<u>(522,876)</u>	<u>(670,952)</u>	<u>(591,991)</u>	<u>78,961</u>
Other Financing Sources (Uses):				
Operating transfer from General Fund.....	136,386	296,613	296,480	(133)
Operating transfer from Public Land				
Acquisition and Facility Fund.....	327,375	323,926	326,934	3,008
Operating transfer from Sewer Fund.....	10,000	10,000	10,000	-
Operating transfer from Refuse Fund.....	10,000	10,000	10,000	-
Appropriated fund balance.....	<u>39,115</u>	<u>30,413</u>	<u>-</u>	<u>(30,413)</u>
Total other financing sources (uses).....	<u>522,876</u>	<u>670,952</u>	<u>643,414</u>	<u>(27,538)</u>
Net change in fund balance.....	-	-	51,423	51,423
Fund Balance - Beginning of year.....	<u>24,658</u>	<u>24,658</u>	<u>24,658</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 24,658</u>	<u>24,658</u>	<u>76,081</u>	<u>51,423</u>

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
PUBLIC LAND ACQUISITION AND FACILITY SPECIAL REVENUE FUND
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Utility service taxes-electric.....	\$ 240,000	260,000	292,496	32,496
Utility service taxes-liquid propane.....	8,200	12,000	13,263	1,263
	<u>248,200</u>	<u>272,000</u>	<u>305,759</u>	<u>33,759</u>
Permits and fees:				
Franchise fees-solid waste.....	<u>24,000</u>	<u>27,000</u>	<u>31,307</u>	<u>4,307</u>
Miscellaneous Revenues:				
Investment earnings.....	<u>12,200</u>	<u>6,000</u>	<u>9,863</u>	<u>3,863</u>
Total revenues.....	<u>284,400</u>	<u>305,000</u>	<u>346,929</u>	<u>41,929</u>
Expenditures:				
Physical Environment:				
Operating expenditures.....	100	100	704	(604)
Capital outlay.....	<u>-</u>	<u>18,000</u>	<u>16,532</u>	<u>1,468</u>
Total expenditures.....	<u>100</u>	<u>18,100</u>	<u>17,236</u>	<u>864</u>
Excess of revenue over (under) expenditures	<u>284,300</u>	<u>286,900</u>	<u>329,693</u>	<u>42,793</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	43,075	40,033	-	(40,033)
Operating transfer from Land Acquisition Fund..	-	-	276	276
Operating transfer to Debt Service Fund.....	(327,375)	(326,933)	(326,934)	(1)
Appropriated for future use.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>(284,300)</u>	<u>(286,900)</u>	<u>(326,658)</u>	<u>(39,758)</u>
Net change in fund balance.....	-	-	3,035	3,035
Fund Balance - Beginning of year.....	<u>848,042</u>	<u>848,042</u>	<u>848,042</u>	<u>-</u>
Fund Balance - End of year.....	<u>848,042</u>	<u>848,042</u>	<u>851,077</u>	<u>3,035</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL FIREFIGHTERS' PENSION TRUST FUND
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2008	\$ 101,078	\$ 36,672	\$ (64,406)	275.60%	\$ -	n/a
10/1/2005	33,095	56,749	23,654	58.30%	9,495	249.12%

Years prior to 2005 not required, per paragraph 124 of GASB 25, for plans utilizing the aggregate actuarial cost method.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>State Excise/ Supplemental Contribution</u>	<u>Percent Contributed</u>
9/30/2008	\$ 8,520	\$ -	\$ 13,793	100.00%
9/30/2007	8,520	-	33,955	100.00%
9/30/2006	538	-	24,972	100.00%
9/30/2005	-	-	17,595	100.00%
9/30/2004	-	-	11,515	100.00%

Based on actuarial valuation dated 10/01/2008

REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT OBLIGATION
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2010	\$ -	\$ 53,866	\$ 53,866	0.00%	\$ 2,290,409	2.35%
10/1/2009	-	-	-	-	-	n/a
10/1/2008	-	-	-	-	-	n/a

The Town determined its OPEB obligation from the use of the alternative measurement method for employers with fewer than one hundred plan members, which has not been actuarially determined.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Other Contribution</u>	<u>Percent Contributed</u>
9/30/2010	\$ 9,254	\$ -	\$ -	0.00%
9/30/2009	-	-	-	0.00%
9/30/2008	-	-	-	0.00%
9/30/2007	-	-	-	0.00%
9/30/2006	-	-	-	0.00%
9/30/2005	-	-	-	0.00%

OTHER SUPPLEMENTARY INFORMATION

***BUDGETARY COMPARISON SCHEDULES
OTHER MAJOR FUNDS***

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES***

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BUDGETARY COMPARISON SCHEDULE
143 BEACH STREET CAPITAL PROJECTS FUND
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
Local government unit grant:				
ECHO grant.....	\$ 211,720	211,720	-	(211,720)
Miscellaneous:				
Investment earnings.....	<u>200</u>	<u>200</u>	<u>-</u>	<u>(200)</u>
Total revenues.....	<u>211,920</u>	<u>211,920</u>	<u>-</u>	<u>(211,920)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	5,250	7,798	9,307	(1,509)
Capital outlay.....	<u>210,300</u>	<u>224,500</u>	<u>213,895</u>	<u>10,605</u>
Total expenditures.....	<u>215,550</u>	<u>232,298</u>	<u>223,202</u>	<u>9,096</u>
Excess of revenue over (under) expenditures	<u>(3,630)</u>	<u>(20,378)</u>	<u>(223,202)</u>	<u>(202,824)</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	-	-	-	-
Operating transfer from General Fund.....	-	10,378	10,378	-
Operating transfer from Tree Bank Fund.....	<u>3,630</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total other financing sources (uses).....	<u>3,630</u>	<u>20,378</u>	<u>20,378</u>	<u>-</u>
Net change in fund balances.....	-	-	(202,824)	(202,824)
Fund Balances - Beginning of year.....	<u>(16,320)</u>	<u>(16,320)</u>	<u>(16,320)</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ (16,320)</u>	<u>(16,320)</u>	<u>(219,144)</u>	<u>(202,824)</u>

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Ponce Preserve	Tree Bank	Timucuan Oaks	Sidewalks
Assets:				
Cash and cash equivalents.....	\$ 192,380	2,867	-	13,923
Investments.....	1,245	-	-	-
Due from other governments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>\$ 193,625</u>	<u>2,867</u>	<u>-</u>	<u>13,923</u>
Liabilities and Fund Balances:				
Liabilities:				
Cash overdraft in pooled accounts.....	\$ -	-	2,433	-
Accounts payable and accrued expenses.....	<u>19,685</u>	<u>-</u>	<u>12</u>	<u>-</u>
Total liabilities.....	<u>19,685</u>	<u>-</u>	<u>2,445</u>	<u>-</u>
Fund Balances:				
Reserved for law enforcement.....	-	-	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	<u>173,940</u>	<u>2,867</u>	<u>(2,445)</u>	<u>13,923</u>
Total fund balances.....	<u>173,940</u>	<u>2,867</u>	<u>(2,445)</u>	<u>13,923</u>
Total liabilities and fund balances.....	<u>\$ 193,625</u>	<u>2,867</u>	<u>-</u>	<u>13,923</u>

Parks and Recreation	Police Education	Contraband Forfeitures	Land Acquisition Capital	Total- Nonmajor Governmental Funds
10,649	16,492	9,827	-	246,138
-	-	-	-	1,245
<u>-</u>	<u>216</u>	<u>-</u>	<u>-</u>	<u>216</u>
<u>10,649</u>	<u>16,708</u>	<u>9,827</u>	<u>-</u>	<u>247,599</u>
-	-	-	-	2,433
<u>2,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,296</u>
<u>2,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,729</u>
-	16,708	9,827	-	26,535
<u>8,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,335</u>
<u>8,050</u>	<u>16,708</u>	<u>9,827</u>	<u>-</u>	<u>222,870</u>
<u>10,649</u>	<u>16,708</u>	<u>9,827</u>	<u>-</u>	<u>247,599</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	Ponce Preserve	Tree Bank	Timucuan Oaks	Sidewalks
Revenue:				
Fines and forfeitures.....	\$ -	-	-	-
Miscellaneous:				
Investment earnings.....	803	16	11	36
Miscellaneous revenue.....	<u>696</u>	<u>-</u>	<u>-</u>	<u>1,455</u>
	<u>1,499</u>	<u>16</u>	<u>11</u>	<u>1,491</u>
Total revenue.....	<u>1,499</u>	<u>16</u>	<u>11</u>	<u>1,491</u>
Expenditures				
Current:				
Public safety.....	-	-	-	-
Culture/recreation.....	<u>29,352</u>	<u>-</u>	<u>8,384</u>	<u>3,679</u>
Total expenditures.....	<u>29,352</u>	<u>-</u>	<u>8,384</u>	<u>3,679</u>
Excess of revenue over (under) expenditures.....	(27,853)	16	(8,373)	(2,188)
Other Financing Sources (Uses):				
Operating transfers in.....	-	5,000	-	-
Operating transfers (out).....	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances.....	(27,853)	(4,984)	(8,373)	(2,188)
Fund Balances - Beginning of year.....	<u>201,793</u>	<u>7,851</u>	<u>5,928</u>	<u>16,111</u>
Fund Balances - End of year.....	<u>\$ 173,940</u>	<u>2,867</u>	<u>(2,445)</u>	<u>13,923</u>

Parks and Recreation	Police Education	Contraband Forfeitures	Land Acquisition Capital	Total- Nonmajor Governmental Funds
-	3,194	-	-	3,194
28	37	36	-	967
25	-	-	-	2,176
<u>53</u>	<u>37</u>	<u>36</u>	<u>-</u>	<u>3,143</u>
<u>53</u>	<u>3,231</u>	<u>36</u>	<u>-</u>	<u>6,337</u>
-	1,580	6,221	-	7,801
<u>3,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,043</u>
<u>3,628</u>	<u>1,580</u>	<u>6,221</u>	<u>-</u>	<u>52,844</u>
(3,575)	1,651	(6,185)	-	(46,507)
-	-	-	-	5,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(76,119)</u>	<u>(86,119)</u>
(3,575)	1,651	(6,185)	(76,119)	(127,626)
<u>11,625</u>	<u>15,057</u>	<u>16,012</u>	<u>76,119</u>	<u>350,496</u>
<u>8,050</u>	<u>16,708</u>	<u>9,827</u>	<u>-</u>	<u>222,870</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
PONCE PRESERVE SPECIAL REVENUE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental Revenue:				
Other Grants:				
Florida Recreation Development				
Assistance Program grant.....	\$ 270,000	-	-	-
Volusia County ECHO grant.....	400,000	-	-	-
	<u>670,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous Revenue:				
Investment earnings (loss).....	500	3	803	800
Impact fees.....	<u>-</u>	<u>-</u>	<u>696</u>	<u>696</u>
	<u>500</u>	<u>3</u>	<u>1,499</u>	<u>1,496</u>
Total revenues.....	<u>670,500</u>	<u>3</u>	<u>1,499</u>	<u>1,496</u>
Expenditures:				
Culture/Recreation:				
Parks and Recreation Facilities:				
Operating expenditures.....	21,475	14,067	924	13,143
Capital outlay.....	<u>721,500</u>	<u>14,000</u>	<u>28,428</u>	<u>(14,428)</u>
Total expenditures.....	<u>742,975</u>	<u>28,067</u>	<u>29,352</u>	<u>(1,285)</u>
Excess of revenue over (under) expenditures	<u>(72,475)</u>	<u>(28,064)</u>	<u>(27,853)</u>	<u>211</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>72,475</u>	<u>28,064</u>	<u>-</u>	<u>(28,064)</u>
Total other sources (uses).....	<u>72,475</u>	<u>28,064</u>	<u>-</u>	<u>(28,064)</u>
Net change in fund balances.....	-	-	(27,853)	(27,853)
Fund Balances - Beginning of year.....	<u>201,793</u>	<u>201,793</u>	<u>201,793</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ 201,793</u>	<u>201,793</u>	<u>173,940</u>	<u>(27,853)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
TREE BANK SPECIAL REVENUE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 3,475	5	16	11
Miscellaneous.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues.....	<u>3,475</u>	<u>5</u>	<u>16</u>	<u>11</u>
Expenditures:				
Current:				
Culture/Recreation:				
Operating expenditures.....	-	1,375	-	1,375
Capital outlay.....	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures.....	<u>5,000</u>	<u>1,375</u>	<u>-</u>	<u>1,375</u>
Excess of revenue over (under) expenditures	<u>(1,525)</u>	<u>(1,370)</u>	<u>16</u>	<u>1,386</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	2,642	6,370	-	(6,370)
Operating transfer from General Fund.....	5,000	5,000	5,000	-
Operating transfer to Capital Projects Fund.....	<u>(6,117)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Total other financing sources (uses).....	<u>1,525</u>	<u>1,370</u>	<u>(5,000)</u>	<u>(6,370)</u>
Net change in fund balances.....	-	-	(4,984)	(4,984)
Fund Balances - Beginning of year.....	<u>7,851</u>	<u>7,851</u>	<u>7,851</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ 7,851</u>	<u>7,851</u>	<u>2,867</u>	<u>(4,984)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
TIMUCUAN OAKS SPECIAL REVEUNE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 225	160	11	(149)
Total revenues.....	<u>225</u>	<u>160</u>	<u>11</u>	<u>(149)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	160	8,400	8,384	16
Capital outlay.....	-	-	-	-
Total expenditures.....	<u>160</u>	<u>8,400</u>	<u>8,384</u>	<u>16</u>
Excess of revenue over (under) expenditures	<u>65</u>	<u>(8,240)</u>	<u>(8,373)</u>	<u>(133)</u>
Other Financing Sources (Uses):				
Operating transfer from General Fund.....	(2,552)	-	-	-
Appropriated fund balance.....	<u>2,487</u>	<u>8,240</u>	<u>-</u>	<u>(8,240)</u>
Total other financing sources (uses).....	<u>(65)</u>	<u>8,240</u>	<u>-</u>	<u>(8,240)</u>
Net change in fund balance.....	-	-	(8,373)	(8,373)
Fund Balance - Beginning of year.....	<u>5,928</u>	<u>5,928</u>	<u>5,928</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 5,928</u>	<u>5,928</u>	<u>(2,445)</u>	<u>(8,373)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
SIDEWALKS SPECIAL REVEUNE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous:				
Investment earnings.....	\$ 125	125	36	(89)
Miscellaneous revenue.....	<u>-</u>	<u>-</u>	<u>1,455</u>	<u>1,455</u>
Total revenues.....	<u>125</u>	<u>125</u>	<u>1,491</u>	<u>1,366</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	-	-	3,679	(3,679)
Capital outlay.....	<u>4,255</u>	<u>4,255</u>	<u>-</u>	<u>4,255</u>
Total expenditures.....	<u>4,255</u>	<u>4,255</u>	<u>3,679</u>	<u>576</u>
Excess of revenue over (under) expenditures	<u>(4,130)</u>	<u>(4,130)</u>	<u>(2,188)</u>	<u>790</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	4,130	4,130	-	(4,130)
Operating transfer to General Fund.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>4,130</u>	<u>4,130</u>	<u>-</u>	<u>(4,130)</u>
Net change in fund balance.....	-	-	(2,188)	(3,340)
Fund Balance - Beginning of year.....	<u>16,111</u>	<u>16,111</u>	<u>16,111</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 16,111</u>	<u>16,111</u>	<u>13,923</u>	<u>(3,340)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
PARKS AND RECREATION SPECIAL REVENUE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Permits and fees:				
Impact fees.....	\$ 2,442	-	-	-
Miscellaneous:				
Investment earnings.....	125	50	28	(22)
Miscellaneous revenue.....	-	25	25	-
	<u>125</u>	<u>75</u>	<u>53</u>	<u>(22)</u>
Total revenues.....	<u>2,567</u>	<u>75</u>	<u>53</u>	<u>(22)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	10,975	594	766	(172)
Capital outlay.....	<u>1,300</u>	<u>2,700</u>	<u>2,862</u>	<u>(162)</u>
Total expenditures.....	<u>12,275</u>	<u>3,294</u>	<u>3,628</u>	<u>(334)</u>
Excess of revenue over (under) expenditures	<u>(9,708)</u>	<u>(3,219)</u>	<u>(3,575)</u>	<u>(356)</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>9,708</u>	<u>3,219</u>	-	<u>(3,219)</u>
Total other financing sources (uses).....	<u>9,708</u>	<u>3,219</u>	-	<u>(3,219)</u>
Net change in fund balance.....	-	-	(3,575)	(3,575)
Fund Balance - Beginning of year.....	<u>11,625</u>	<u>11,625</u>	<u>11,625</u>	-
Fund Balance - End of year.....	<u>11,625</u>	<u>11,625</u>	<u>8,050</u>	<u>(3,575)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
POLICE EDUCATION SPECIAL REVENUE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and Forfeitures:				
Fines and forfeitures.....	\$ 2,920	2,920	3,194	274
Miscellaneous:				
Investment earnings.....	<u>50</u>	<u>50</u>	<u>37</u>	<u>(13)</u>
Total revenues.....	<u>2,970</u>	<u>2,970</u>	<u>3,231</u>	<u>261</u>
Expenditures:				
Public Safety:				
Law Enforcement::				
Operating expenditures.....	<u>2,325</u>	<u>2,325</u>	<u>1,580</u>	<u>745</u>
Total expenditures.....	<u>2,325</u>	<u>2,325</u>	<u>1,580</u>	<u>745</u>
Excess of revenue over (under) expenditures	<u>645</u>	<u>645</u>	<u>1,651</u>	<u>1,006</u>
Other Financing Sources (Uses):				
Appropriated for future use.....	<u>(645)</u>	<u>(645)</u>	<u>-</u>	<u>645</u>
Total other financing sources (uses).....	<u>(645)</u>	<u>(645)</u>	<u>-</u>	<u>645</u>
Net change in fund balances.....	-	-	1,651	1,651
Fund Balances - Beginning of year.....	<u>15,057</u>	<u>15,057</u>	<u>15,057</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ 15,057</u>	<u>15,057</u>	<u>16,708</u>	<u>1,651</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CONTRABAND FORFEITURES SPECIAL REVENUE FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Fines and Forfeitures:				
Fines and forfeitures.....	\$ 3,550	3,550	-	(3,550)
Miscellaneous:				
Investment earnings.....	-	25	36	11
Total revenues.....	<u>3,550</u>	<u>3,575</u>	<u>36</u>	<u>(3,539)</u>
Expenditures:				
Public Safety:				
Law Enforcement:				
Operating expenditures.....	<u>7,110</u>	<u>7,110</u>	<u>6,221</u>	<u>889</u>
Total expenditures.....	<u>7,110</u>	<u>7,110</u>	<u>6,221</u>	<u>889</u>
Excess of revenue over (under) expenditures	(3,560)	(3,535)	(6,185)	(2,650)
Other Financing Sources (Uses):				
Appropriated fund balance.....	<u>3,560</u>	<u>3,535</u>	-	(3,535)
Total other financing sources (uses).....	3,560	3,535	-	(3,535)
Net change in fund balances.....	-	-	(6,185)	(6,185)
Fund Balances - Beginning of year.....	<u>16,012</u>	<u>16,012</u>	<u>16,012</u>	-
Fund Balances - End of year.....	<u>\$ 16,012</u>	<u>16,012</u>	<u>9,827</u>	<u>(6,185)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
LAND ACQUISITION CAPITAL PROJECTS FUND**
For the Year Ended September 30, 2010
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:	\$ -	-	-	-
Total revenues.....	-	-	-	-
Expenditures:	-	-	-	-
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Operating transfer to Land Acquisition Fund.....	-	(276)	(276)	-
Operating transfer to Water Fund.....	(75,843)	(75,843)	(75,843)	-
Appropriated for future use.....	<u>75,843</u>	<u>76,119</u>	-	<u>(76,119)</u>
Total other financing sources (uses).....	-	-	<u>(76,119)</u>	<u>(76,119)</u>
Net change in fund balances.....	-	-	(76,119)	(76,119)
Fund Balances - Beginning of year.....	<u>76,119</u>	<u>76,119</u>	<u>76,119</u>	-
Fund Balances - End of year.....	<u>\$ 76,119</u>	<u>76,119</u>	<u>-</u>	<u>(76,119)</u>

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SUPPLEMENTAL AUDIT REPORTS

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BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Kris Derr, Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the "Town"), as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses in internal control over financial reporting, as defined above. We consider the deficiency described in the accompanying schedule of findings and responses as 2009-3 to be a material weaknesses.

The Honorable Kris Derr, Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida
Page 2

We also identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as 2009-1 and 2009-2 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2009-4 and 2010-5.

We noted certain matters that we reported to management of the Town in a separate letter dated March 31, 2011.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal/state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 31, 2011

SCHEDULE OF FINDINGS AND RESPONSES

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Matters Related to Internal Control Over Financial Reporting

2009-1 Bank Reconciliation and Oversight Procedures

During the current year, we noted that several improvements were made in the administrative process of performing and reviewing routine monthly bank reconciliations. However, we continued to note that completed bank reconciliations were not always performed timely and subsequently reviewed/approved by an official who is independent of the cash collection or account recording process. We also observed that actual accounting adjustments developed and posted to the accounting records as a part of the cash reconciliation process were not routinely or independently approved prior to being posted to the accounting records.

At present, Town administrative policies do not require employees charged with exclusive cash handling duties to take annual vacations for temporary replacement personnel to examine control procedures in their absence. These policies also do not require that a formal cross-training program for accounting personnel be developed to adequately provide for the temporary or permanent loss of key accounting personnel responsible for these functions.

Recommendation: We recommend that formal procedures be developed that appropriately delegate the cash reconciliation approval and oversight process to an independent official who specifically confirms that the reconciliation process has been adequately performed and resolved on a timely basis. We also recommend implementation of formal procedures that require the temporary shifting of cash handling duties among office employees as an integral part of your ongoing cross-training procedures. We believe that these suggestions will further enhance the checks and balances necessary for stronger controls over cash in a small office environment.

Auditee's Response: *Bank reconciliation will be reviewed by an independent official. All employees handling cash will take annual vacation during the year where cash is temporary shifted to another employee. A formal policy for such will be prepared with the next update of the Town's personal rules and regulations.*

2009-2 Separation of Accounting Duties

During the audit, we noted that one individual is responsible for virtually all aspects of the recording, maintenance and postings of all utility customer accounts, including the entering of meter reading data, customer account billing, billing adjustments, general ledger postings, and following up on all potential billing/posting complaints and adjustments with little or no independent oversight from management. While significant procedural oversight changes were recently employed to provide additional assurance that utility billings are performed and recorded timely, we did not observe any changes in the degree of oversight necessary to ensure that independent reconciliations of the monthly utility billings and payment postings have occurred.

We also noted that the current structure of the utility billing software allows for potential unauthorized and/or undetected access to customer accounts. At present, it is a routine process for customers to request billing adjustments for items which are beyond their control, such as water line breaks and leaks, as well as filling swimming pools and other items where water is not directed through the sewer system. When this occurs, the same individual has the sole authority and ability to adjust these billings without the authorization or review of a supervisor.

SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Recommendation: We recommend that you should assess all of the Town's primary internal office and control procedures to identify all supervisory oversight requirements so that they can be delegated to independent officials, to the extent possible, to maximize your control over these important functions. We also suggest that the Town adopt formal policies and procedures for utility billing adjustments to include supervisory review and approval. These would greatly enhance the internal controls over processing billings and receivables.

Auditee's Response: The utility billing process will be transferred to another employee. The policy for adjusting utility bills has been reviewed and adjustments are now approved by a supervisor.

2009-3 Capital Assets Records - Material Weakness

To exercise essential control over the Town's investments in capital assets, accounting personnel are required to develop adequately detailed subsidiary records to support the underlying capital cost of buildings, fixed equipment and improvements other than buildings. During the audit, we noted that the costs of some of the Town's capital assets have not been segregated and/or separately reported in the capital asset record system. Primarily, these assets included bulk purchases of furniture and equipment during the construction of the Town Hall facility which have not been separated in the accounting systems. We also noted that the Town did not perform a complete physical inspection of its tangible personal property holdings. As a result, significant additional audit time was required to assist your personnel in appropriately segregating these assets and to obtain assurance that the depreciation calculations for each fund type were reasonable.

Recommendation: We recommend that you should consider performing a complete physical inventory of the Town's capital assets, which will be the best and most efficient method for developing an accurate listing of all fixed assets, and for establishing the appropriate safeguards over their custody. Accounting for capital assets should include maintaining fund designated control accounts and detailed subsidiary records for the various categories of capital assets. In addition, periodic reconciliations of detailed subsidiary records with control accounts are needed to ensure capital asset acquisitions and related depreciation are properly recorded. To improve accountability for these assets, we continue to recommend that the detailed subsidiary records for all capital asset categories be timely updated for transactions during the fiscal year and periodically reconciled to the respective general ledger control accounts to ensure that transactions affecting these records and accounts are properly recorded.

Auditee's Response: The town staff is in the process of conducting a physical inventory of the Town's capital assets.

SCHEDULE OF FINDINGS AND RESPONSES – (Continued)

September 30, 2010

TOWN OF PONCE INLET, FLORIDA

Matters Related to Compliance and Other Matters

2009-4 (Volunteer) Firefighters' Pension Trust Fund-Administration

During the past two fiscal years, the Town received annual Casualty Insurance Premium Tax warrants and the annual Firefighters' Supplemental Compensation Trust Fund distributions, none of which were deposited timely to the Firefighters' Pension Trust Fund. Pursuant to the requirements of Chapter 175 (Section 175.131) Florida Statutes, the Town's pension trust fund's Board of Trustees are required to deposit state funds in the Firefighters' Pension Trust Fund immediately and under no circumstances more than five days after receipt.

Recommendation: We continue to recommend that steps be taken to ensure that all known payments that belong to the Plan have been identified and transferred to the Plan's depository accounts at the earliest possible convenience.

Auditee's Response: The Firefighter Pension Fund investments are now administrated by the Florida League of Cities. The Town will request that the Firefighter Pension Board authorize the Florida League of Cities to receive the annual Casualty Insurance Premium Tax payment.

2010-5 Clean Water State Revolving Fund (SRF) Loan

Pursuant to Sections 3.01 and 6.01 of the Clean Water State Revolving Fund Loan agreement, held with the State of Florida Department of Environmental Protection, the Town agreed to establish a Loan Debt Service Account for purposes of servicing the debt payments associated with this obligation. The Town is required to make six monthly loan deposits, with the first five being equal to at least one-sixth of the semiannual payment, and the sixth at least equal to the amount required to make the total on deposit in the Loan Debt Service Account equal to the semiannual loan payment amount of \$78,293. During the audit, we noted that the Town did not make the mandatory monthly transfers for the period from October 2009 through February 2010. However, we did note that in lieu of making the required monthly transfers, the Town subsequently transferred all funds into the Loan Debt Service Account at one time during the month of March sufficient to meet all of the year's combined debt service payments.

Recommendation: We recommend that the Town should implement the appropriate procedures to ensure future compliance with the loan restrictions and covenants.

Auditee Response: The Town will make a budget transfer where a payment will always be funded in advance.

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BRENT MILLIKAN & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

The Honorable Kris Derr, Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida

We have audited the financial statements of Town of Ponce Inlet, Florida, (the "Town") as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated March 31, 2011.

We conducted our audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters and accompanying Schedule of Findings and Responses. Disclosures in those reports, which are dated March 31, 2011, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted in the accompanying pages under the heading *Prior Year Findings and Recommendations*.
- 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 Town of Ponce Inlet, Florida, complied with Section 218.415., Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our recommendations are noted in the accompanying pages under the headings *Prior Year Findings and Recommendations* and *Current Year Findings and Recommendations*.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, our recommendations are noted in the accompanying pages under the heading *Current Year Findings and Recommendations*.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, our recommendations are noted in the accompanying pages under the heading *Current Year Findings and Recommendations*.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Town of Ponce Inlet, Florida, (primary government) is a municipal corporation created by the Laws of Florida in May 1963 under the provisions House Bill No. 1133 (amending Article 2, Section 4, of Chapter 63-1829, Laws of Florida, Special Acts of 1963), and the Municipal Home Rule Power Act, F.S. Ch. 166. The Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (component unit) is a non-for-profit, tax-exempt corporation organized and existing under the Laws of the State of Florida and was chartered on June 20, 1972.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Town of Ponce Inlet, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Town of Ponce Inlet, Florida for the fiscal year ended September 30, 2010, required to be filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Town of Ponce Inlet, Florida'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.

The Honorable Kris Derr, Mayor
and Members of the Town Council
Town of Ponce Inlet, Florida
Page 3 of 3

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

Brent Milliken & Co., P.A.

March 31, 2011

MANAGEMENT LETTER COMMENTS

Year Ended September 30, 2010

TOWN OF PONCE INLET, FLORIDA

PRIOR YEAR MATTERS

Section 10.554(1)(i)1., Rules of the Auditor General requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. All prior year matters have been appropriately resolved, except for the following:

Information Technology Matters

The continued maintenance and security of any entity's information technology systems is profoundly important in this new and challenging age of electronic data systems. During the prior year, we inquired about the Town's formal documented IT policies and procedures while conducting our in-depth review of the applicable general and specific control activities related to the Town's information technology systems. We also made a cursory review of the actual practices and procedures employed by the Town for purposes of assessing their effectiveness in processing and securing electronic data throughout the accounting and information processing infrastructure. While we noted that significant progress was made in managing the IT systems, we noted that these essential policies and procedures have not yet been formally developed and approved in written or documented form.

We also observed that the Town's externally contracted IT management team does not provide a substantial amount of system-related performance statistics for review to the Town's in-house senior systems personnel or management. Such data, which includes statistics on run time, utilization by department, down time, systems failures, and other related information, could be helpful to the Town's systems managers in evaluating the efficiency of the IT design and facility, the sufficiency and capabilities of the various software vendors to maintain current updates and/or patches, and its ability to adequately meet or exceed user needs.

Recommendation: We recommend that you continue in your efforts to establish formal and written IT policies and procedures. When completed, we also recommend that you should consider requesting your external IT contractors to provide you with the system-related performance statistics sufficient to obtain assurance that your current systems are functioning properly and meeting your immediate automation needs.

Auditee's Response: *The Town has recently requested new proposals for Information Technology Services. With the new contact, the vendor will be requested to provide system-related performance statistics to assure that the systems are functioning properly and meet the needs of the Town.*

Purchase Order System

Timely recognition of the commitment for qualified purchasing obligations is essential to ensure successful compliance with the Town's procurement policies and procedures and budgetary control systems and to properly reflect all related acquisitions and outstanding obligations as they are incurred in the process of conducting your fiscal operations. At the present time, the Town employs a decentralized procurement system that requires each individual department to initiate all purchases for the acquisition of goods and services. During the conduct of the audit, we continued to note that a significant number of purchase commitments were not entered into the Town's internal accounting systems until after the purchase had been consummated. In these instances, it was not possible for the Town to confirm to us that

MANAGEMENT LETTER COMMENTS – (Continued)

Year Ended September 30, 2010

TOWN OF PONCE INLET, FLORIDA

a formal pre-approved budgetary review had been performed prior to the approval of the purchase commitment.

Recommendation: While we understand that the Town formally converted to a new system during the prior fiscal year, we continue to recommend that you should consider the development of a formalized procurement system that requires the use of purchase orders. Such a system would provide additional assurance that all Town purchases (1) are made in accordance with current policies and procedures, (2) are examined to insure that sufficient budgetary appropriations are available to fund the purchase prior to the commitment to buy, (3) are optimally managed to insure that the best procurement source and cost option was selected, and (4) are approved in advance of the procurement by a responsible Town official.

Auditee's Response: *Staff will review how the encumbrance system works in our new accounting software.*

Investment of Firefighters' Pension Trust Funds

At least once every three years the Firefighters' Pension Trust Fund's Board of Trustees are required to retain a professionally qualified independent consultant who shall evaluate the performance of any existing professional money manager and make recommendations to the trustees regarding the selection of money managers for the next investment term. In late 2009, steps were taken by the board with the inherent intention of maximizing investment earnings on Plan assets. However, the material portion of the trust's assets remain invested with rates of return that are substantially lower than those rates assumed by the Plan's actuaries in determining annual investment and funding requirements.

Recommendation: We continue to recommend that the trustees should evaluate and reconsider their alternative investment options so that investment returns can be maximized in the future. We also recommend that the Plan's historical investment return data be supplied to the Plan's actuaries so that it can be appropriately considered in their interest rate assumptions at rates that more precisely reflect the historical earnings rate of Plan investments.

Auditee's Response: *Investments are now administrated by the Florida League of Cities.*

MANAGEMENT LETTER COMMENTS – (Continued)

Year Ended September 30, 2010

TOWN OF PONCE INLET, FLORIDA

CURRENT YEAR MATTERS

Section 10.554(1)(i), Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control: (1) any recommendations to improve financial management; (2) violations of provisions of contracts or grant agreements, or abuse that have an effect on the financial statements that is less than material but more than inconsequential; and based on professional judgment, (3) matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (a) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (b) control deficiencies that are not significant deficiencies. The following is a summary of our current year findings and recommendations:

Ponce Inlet Community Center – Employee/Independent Contractor

The Ponce Inlet Community Center Inc. (PICCI) contracts with an individual who is primarily responsible for all repairs and maintenance performed at the Community Center. However, we noted that this individual (who is employed exclusively by PICCI) is reported as an “employee” on the Town’s federal employment tax returns. PICCI’s relationship with the Town is that it rents the Community Center from the Town and reimburses the Town for a portion of the utilities and related expenses. In the absence of a formal payroll common paymaster agreement governing the extent of services provided by the Town exclusively for PICCI, it is conceivable that this relationship could potentially be questioned or challenged to document why this individual is not receiving any other Town employee benefits, including health insurance, compensated absences, and retirement coverage.

Recommendation: We recommend that you should consider examining this current working relationship to determine if this individual meets the essential attributes of an “employee,” or those of an “independent contractor” and to determine precisely “which entity” is this individual’s employer. If it is determined that the individual is an employee of PICCI, then we recommend that you should meet with the Town Attorney to develop a formally documented common paymaster agreement that clearly establishes the extent of the payroll processing services provided by the Town and to clearly document the exemptions from receiving Town employee benefits.

Auditee Response: Staff is working with the officers of the PICCI Board to resolve this issue.

Federal Information and Tax Reporting Requirements–Form 1099

In accordance with federal requirements, the Town must file Form 1099-MISC for each person to whom the Town paid at least \$600 in rents, services (including parts and materials), prizes and awards, other income payments, medical and healthcare payments, and gross proceeds of \$600 or more paid to an attorney. To be partially exempt from these filing requirements, additional documentation is required to be retained with each year’s data that is sufficient to support the exemptions (e.g. proof of corporation status, completed Form W-9, etc.). There are no exemptions for payments made to attorneys in excess of \$600 annually. During the conduct of the audit, we found that the Town did not prepare or issue any Form 1099-MISCs at the end of 2009 or 2010.

Recommendation: We recommend that you should consider preparing Form 1099-MISCs for all nonexempt entities for payments made by the Town during 2010. Further, we recommend that you should examine all of your current and prior year vendor payment files to determine if you have the necessary documentation to exempt you from the filing of these required forms. For all

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entities that are not determined to be exempt, we recommend that you should solicit and obtain a completed and signed Form W-9 Request for Taxpayer Identification Number and Certification. For all nonresponding entities, and those who confirm to you that they are not exempt, steps should be considered to obtain sworn affidavits from each entity affirming that all amounts paid by the Town were included in their respective federal tax returns. For all future payments, we recommend that steps should be implemented that require a signed Form W-9 in each vendor file as a minimum condition of payment.

Auditee Response: Staff is preparing the necessary 1099 MISC.

Adjusting Journal Entries

As a routine part of its financial operations, the Town prepares an extensive number of manual journal entries, most of which are developed and posted by a single supervisory individual. During our review, we noted that it was inherently difficult to obtain independent review and approval of these adjustments prior to their being posted due to a lack of the availability of supervisory personnel.

Recommendation: Adjusting journal entries are an essential necessity for proper accounting and reporting. All journal entries should be accompanied by supporting documentation and proper approval in order to strengthen controls. We recommend that you should consider revising and updating your accounting policies and procedures to ensure that all journal entries are properly reviewed and approved before entry to the accounting system. Such policies could include that management categorize journal entries into recurring and nonrecurring journal entries. Authorization of recurring journal entries could be established at the beginning of the year. Nonrecurring journal entries would require individual authorization by management, including the initialing of support for the entries to document their approval. This approval process would improve controls over adjustments to the general ledger and facilitate future follow-up as well as provide additional insight for other users.

Auditee Response: Adjusting journal entries will be approved by the Town Manager or designee.

Other Postemployment Benefit Obligation

While the provisions of Governmental Accounting Standards Board Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefit Pensions* were required to be implemented in the 2010 fiscal year, no significant steps were taken to obtain an actuarial valuation to determine the OPEB obligation due to its potential estimated cost. In the absence of a professional prepared actuarial study, it is difficult or impossible to estimate all of the potential liabilities created by this new requirement. Implementing the provisions of this new accounting pronouncement may be more difficult to comply with since the financial data you will be required to accumulate may also be difficult to acquire.

This new standard has the potential for tremendous increases in the expenses and liabilities reported in the financial statements of many governmental entities even when an employer that provides no postretirement benefits, such as medical, dental, long-term care or life insurance. Under state law, the Town is required to permit retired employees to continue participation in the Town's employee health insurance program, even though the participant must reimburse the Town for 100% of the premium. Because a statutory composite rate is employed, an employer expense under the new GASB rules may be realized from the implicit rate subsidy that exists for retirees, which the GASB considers to be an OPEB

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Recommendation: We recommend that management should consider consulting with an OPEB actuary to determine what effect, if any, this Statement will have on the Town. A comprehensive assessment of all of the Town's employee benefit programs, summaries of the underwriting criteria used by the insurance providers in their determination of the related premium costs and unit classifications, and current employee census information will all need to be compiled to appropriately determine the expenses and liabilities associated with these benefits for inclusion in your financial statements.

Auditee Response: The alternative measurement method for employers with fewer than 100 plan members was used for the purpose of this audit. Staff will consult with an actuary about the Town's options in the future.

New Accounting Pronouncement

Fiscal Year Ending September 30, 2011 - The GASB has currently adopted significant changes that will affect the way that the Town reports its net assets, including all commitments and restrictions. *GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions* will undoubtedly affect the Town's reporting model on its effective date. Its objective is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are also required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

Recommendation: We recommend that management take steps to familiarize themselves with the requirements of this reporting requirement, as well as perform a comprehensive review of all revenues, investments, and other funds subject to restrictions, commitments, and assignments to ensure all amounts are properly identified and captured within their respective general ledger accounts and financial statement classifications.

Auditee Response: Staff will review GASB 54.