



The Town of
Highland Beach, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended September 30, 2012



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Highland Beach, Florida*

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2012

**Prepared by:
Finance Department**

**Cale Curtis
Finance Director**

TOWN OF HIGHLAND BEACH, FLORIDA
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Town of Highland Beach

3614 SOUTH OCEAN BOULEVARD • HIGHLAND BEACH, FLORIDA 33487

Palm Beach County, Florida

561-278-4548
FAX 561-265-3582

Mayor:
Bernard Featherman
Vice Mayor:
Ron Brown
Commissioners:
Doris M. Trinley
Dennis J. Sheridan
Louis P. Stern
Town Manager:
Kathleen D. Weiser

March 4, 2013

Honorable Mayor and Members of the Town Commission
Town of Highland Beach, Florida

Pursuant to the Town's Charter and in accordance with State law, all general purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements. These are presented in conformity with generally accepted accounting principles (GAAP) that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Commensurate with this requirement, we are pleased to present the Town of Highland Beach's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2012.

This report consists of management's representation concerning the finances of the Town of Highland Beach. Consequently, the Town's management assumes full responsibility for both the completeness and reliability of all the information presented in this report. In order to provide a reasonable basis for making these representations, management of the Town of Highland Beach has established a comprehensive internal control framework that is designed to both protect the Town's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework for internal controls has been designed to provide reasonable, rather than absolute, assurances that the financial statements will be free of material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Highland Beach's financial statements have been audited by Nowlen, Holt & Miner, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Highland Beach for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor has concluded and issued an unqualified ("clean") opinion on the Town of Highland Beach's financial statement for the fiscal year ended September 30, 2012. The independent auditors' report is presented as the first component of the financial section of this report.

The organization and content of this report are based primarily on the financial reporting standards set by the Governmental Accounting Standards Board (GASB) and recommendations of the Government Finance Officers Association of the United States and Canada. The report is designed to meet the needs of a wide variety of readers and is divided into four principal sections. These sections consist of an introductory section, financial section, statistical section, and a compliance section. The Management's Discussion and Analysis (MD&A), a narrative designed to assist the reader by providing an overview and analysis of the financial activities of the Town, can be found immediately following the report of independent auditors starting on page 11.

The financial reporting entity includes all the funds of the primary government (i.e., the Town of Highland Beach, Florida as legally defined), as well as all of its component units in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Reporting Entity."* Although the Palm Beach County Board of County Commissioners, Palm Beach County School Board, and South Florida Water Management District, among other governments, levy and collect taxes on property located within the corporate limits of the Town of Highland Beach, financial information on these taxing authorities is not included in this report since the Town is not financially accountable for these agencies. Annual financial reports of these other taxing authorities are available upon request from each authority.

THE TOWN

The Town of Highland Beach is located in the southern portion of eastern Palm Beach County, which is in the southeastern part of the State of Florida. The Town encompasses 0.6 square miles and is bounded on the north and northwest by the City of Delray Beach and on the south and southwest by the City of Boca Raton. The Atlantic Ocean lies adjacent to the Town on the east and the Intracoastal Waterway lies to the west. The Town is a residential community with a year round population of 3,539 (2010 Census), which increases to approximately 7,900 during the winter months. The 2010 U.S. Census Bureau identified 54.2 percent of the population was over the age of 65, with 47.8 percent being less than 65 years old.

The governing body of the Town consists of a five member Town Commission, each of whom is elected for three year overlapping terms. Commission members may serve two consecutive terms. The Town was incorporated under the laws of Florida governing municipal corporations in 1949 and operates under a Charter adopted by its citizens. Day-to-day operations of the Town are under the leadership of a Town Manager who is appointed by the Town Commission.

The Town provides general municipal services such as police protection, water and wastewater utility services, public works, street maintenance, landscaping as well as a municipal library. The Town also provides fire protection, solid waste services and a postal substation through contracts with others.

ECONOMIC CONDITION AND OUTLOOK

The overall economic condition of the general operations of the Town of Highland Beach is stable. The Town's tax base benefited significantly from new development during the housing boom, gaining \$1.5 billion dollars in value in just seven years from 2000 to 2007. When the "boom" ended in late 2007, so did the development trend and it has continued to struggle during the last year. Historically, the Town benefited from a steady increase in assessed value assigned by the Palm Beach County Property Appraiser's Office which had insured a reliable increase in Ad Valorem tax revenues year over year. That trend ended during the fiscal year which closed on September 30, 2008. And, for the fifth consecutive year, the Town's Ad Valorem taxable value has decreased, this time by \$83,670,776 or 4.6 percent of assessed value year over year.

As we look forward, there have been some signs of economic recovery, at least in Highland Beach where the Town has had an increase in building permits for residential redevelopment and new construction. Additionally, the State Legislature in Tallahassee continues to analyze and sponsor a number of statewide property tax reform initiatives, which if passed, may have an impact on future Ad Valorem tax revenues. Taking into consideration the level of uncertainty about future tax collection capabilities of the Town, management, the staff, and the elected officials of the community need to remain vigilant of the Town's revenue and the expenditure trends.

The following chart is an illustration of the previously mentioned points regarding the growth (or decline) in assessed value in the Town:

Year	Taxable Assessed Valuation	Population	Assessed Value Per Capita
2000	807,510,758	3,518	229,537
2001	858,637,171	3,775	227,454
2002	1,037,144,177	3,885	266,961
2003	1,203,859,271	3,961	303,928
2004	1,356,599,854	4,019	337,547
2005	1,546,615,892	4,157	372,051
2006	1,875,187,592	4,157	451,092
2007	2,300,831,999	4,155	553,750
2008	2,238,941,501	4,164	537,690
2009	2,140,106,933	4,164	513,955
2010	1,932,060,374	4,162	464,214
2011	1,815,718,250	3,539	545,934
2012	1,732,047,474	3,539	489,417

Long-term financial planning

The unassigned fund balance in the general fund decreased for a second consecutive year. This cash balance is still considered to be healthy, consisting of approximately 35% of general fund revenues. The Town Commission continues to take an aggressive approach toward preserving the financial future of the Town by adopting policies that create cash reserve designations labeled as assigned fund balance. These cash reserves are assigned for a specific use such as recovering from natural disasters and providing a “cash cushion” during the months where cash flow falls stagnant. Future cash reserve designations will include an assigned fund balance for capital improvements and replacements.

Cash management policies and practices

The Town revised its investment policy in May of 2012 to provide increase flexibility when investing the Town’s excess cash. While the three primary objectives: Safety, Liquidity, and Yield (in priority order) remain in place, this revision will allow the Town to look a little further out on the yield curve for opportunities to increase investment income. With safety being the foremost objective of the policy, investments have been restricted to no more than 35% of the Town’s total investment portfolio to be placed in any one financial institution or investment. In addition, 50% of the Town’s investments must be placed in readily available funds such as money market savings accounts. Given the aforementioned investment parameters, the Town was able to achieve the policy benchmark for investment income by exceeding the average rate on Federal Funds and three month U.S. Treasury Bills.

MAJOR INITIATIVES

On May 1, 2012 the Town Commission adopted a Strategic Plan that provided a number of major objectives that includes renovations to the Town Commission Chambers and Police Department, addressing the use of fund balance for balancing the budget, repaving the Town's walk path, and evaluating selling unused land. In the early part of the 2013, the Town Commission will be presented with a 5-year Capital Plan that will carry out the objectives of the Strategic Plan as well as set a schedule for major Capital Improvements and Replacements. The Capital Improvements and Replacements may include the replacement of the Town's Fire Truck, Police Vehicles, and the underground water transmission lines that run beneath the streets of Bel Lido Isle.

Following the Hurricane Sandy event that severely eroded the beaches in South Florida, the Town Commission hired a qualified Coastal Engineer to provide a feasibility study for beach restoration alternatives. The results of the study were not available at the time of this printing.

As indicated in the Town's 5-year Capital Plan, repairs to the Town's walk path are scheduled to begin in the early part of 2013. The estimated cost of the repair project is between \$75,000 - \$150,000. Repairing the walk-path is the beginning stage of a much larger streetscape project that is being planned for the future.

FINANCIAL INFORMATION

Budgetary Control

The Town maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Town Commission. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level within an individual fund. The Town utilizes the encumbrance accounting system.

Financial Standards

The Town implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions* during the fiscal year ended September 30, 2011. The objective of GASB 54 is to provide a clearer distinction between available and unavailable financial resources by establishing 5 categories (non-spendable, restricted, committed, assigned, and unassigned) of fund balance. With the adoption of the Fund Balance policy, the Commission established two "assigned" reservations of fund balance: the first is a Target Reserve of 16.7% of general fund revenues. This reserve provides budget stabilization during periods of cash flow shortfalls. The second is a Disaster Recovery reserve. The Disaster Recover had a balance of \$350,000 at the 2012 fiscal year end.

AWARDS AND ACKNOWLEDGMENTS

Awards

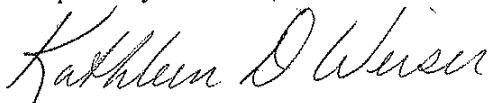
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Highland Beach for its comprehensive annual financial report for the fiscal year ended September 30, 2011. This was the twenty-first consecutive year that the Town received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report in a timely basis could not have been accomplished without the efficient and dedicated services of the Town of Highland Beach's Finance Department. We also wish to thank the Mayor and Commission members for their interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,



Kathleen D. Weiser
Town Manager



Cale Curtis
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Highland Beach
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director



TOWN OF HIGHLAND BEACH
Organization Chart
 September 2012

The Citizens of Highland Beach

Town Commission
 Bernard Featherman, Mayor
 Ron Brown, Vice Mayor
 Doris Trinley, Commissioner
 Dennis Sheridan, Commissioner
 Louis Stern, Commissioner

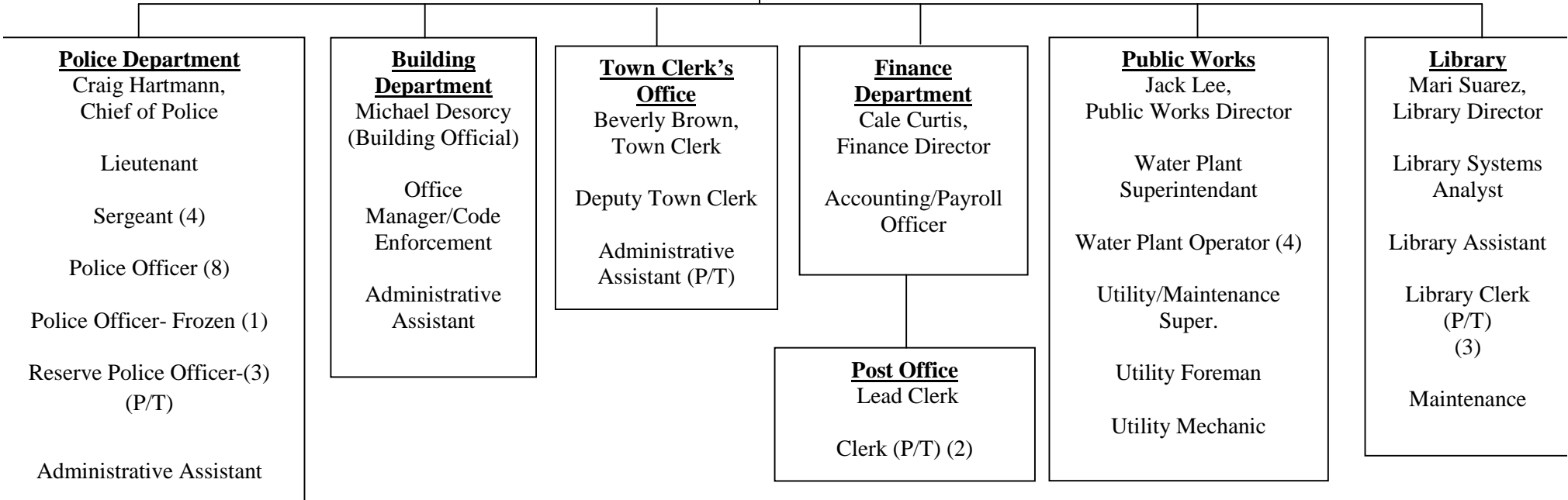
Advisory Boards
and Committees

Town Attorney
 Glen Torcivia

Engineers, Land
Planners, Auditors

Town Manager's Office
 Kathleen D. Weiser, Town Manager

Assistant to the
Town Manager



TOWN OF HIGHLAND BEACH, FLORIDA

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2012

<u>TITLE</u>	<u>NAME</u>
Mayor	Bernard Featherman
Vice Mayor	Ronald Brown
Commissioner	Doris M. Trinley
Commissioner	Dennis Sheridan
Commissioner	Louis P. Stern
Town Manager	Kathleen D. Weiser
Town Clerk	Beverly M. Brown
Finance Director	Cale Curtis
Chief of Police	Craig Hartmann
Building Official	Michael Desorcy
Public Works Director	Jack W. Lee
Library Director	Maria T. Suarez
Town Attorney	Glen Torcivia



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
ALEXIA G. VARGA, CFE, CPA
EDWARD T. HOLT, JR., CPA
BRIAN J. BRESCIA, CFP®, CPA

KATHLEEN A. MINER, CPA
J. MICHAEL STEVENS, CPA
KARA D. PETERSON, CFE, CPA
MARK J. BYMASTER, CPA
PUI K. LAI, CPA
RYAN M. SHORE, CPA

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Mayor and Members of the Town Commission
Town of Highland Beach, Florida

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Highland Beach, Florida as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 4, 2013, on our consideration of the Town of Highland Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 16, the budgetary comparison data on pages 64 through 67, and the Schedule of Funding Progress – Other Postemployment Benefits on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Highland Beach, Florida's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have 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 them.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
March 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Highland Beach's management discussion and analysis is designed to assist the reader by providing a narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2012. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting in changes and currently known facts, please read it in conjunction with the accompanying transmittal letter in the introductory section (beginning on page 1) and the Town's financial statements (beginning on page 17).

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ending September 30, 2012.

- The Town's assets exceeded its liabilities at September 30, 2012 by \$15.8 million (net assets), an increase of approximately \$217,000 over the prior year's ending net assets of \$15.6 million. Of this amount, \$7.1 million may be used to meet the ongoing obligations to citizens and creditors.
- The Town's revenues for governmental activities, excluding transfers, were \$9.3 million, a decrease of 0.6% or \$55,000 over the previous year. The expenses for governmental activities were \$7.9 million, a 1.4% decrease from the prior year. Property tax revenues declined another \$55,000 due to unfavorable property valuations. The decline; however, was limited due to the adoption of higher tax rate. The total governmental activities expenditures were held in check this year due to restructuring of police personnel as well as a savings associated with a new contract for general liability and property insurance.
- The business-type activities experienced a \$162,000 decrease in revenues. Expenses increased by \$11,000. The Water and Sewer Funds had a combined operating loss of \$728,000 compared to an operating loss of \$589,000 in the prior year. Revenue increases in the business-type activities are due from an increase in water consumption. The increase in water consumption as well as capital improvements to the water and sewer system were factors that led to increased expenses.
- At September 30, 2012, the General Fund's unassigned fund balance was \$3.7 million. The General Fund has designated two assignments of fund balance. One is for budget stabilization and totaled \$1.7 million. The second is for disaster recovery at an amount of \$350,000.
- The Town's long-term debt decreased by \$1.48 million, or 8.4 percent. The key factors of the decrease were annual principal payments on current debt and no new borrowing.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Highland Beach's basic financial statements. The Town of Highland Beach's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* (pages 17 through 19) are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reports as net assets. The change in net assets over time may be an indicator of the Town's financial health.

The *statement of activities* provides a breakdown of revenues and expenses by function. The functions primarily supported by taxes and intergovernmental revenues, such as police, fire, and other public services are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In the Town of Highland Beach, the latter consist of the water and sewer activities.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on major funds, rather than the previous reporting model's fund types. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds (beginning on page 20) are used 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. Such information may be useful in evaluating a government's near-term financing requirement. Most of the Town's basic services are reported in the governmental funds.

Proprietary Funds (beginning on page 24) provide the same type of information as the government-wide financial statements, only in more detail. The Town's proprietary funds consist of the water and sewer funds. These enterprise funds are the equivalent of business-type activities in the government-wide statements.

Notes to the Financial Statements (beginning on page 28) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements were designed so that the user could determine if the Town is in a better or worse financial condition from the prior year.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$15.8 million.

Town of Highland Beach
Net Assets
(In thousands)

	Governmental Activities 2012	Business Activities 2012	Total Activities 2012	Governmental Activities 2011	Business Activities 2011	Total Activities 2011
Assets:						
Current and other assets	\$ 6,252	\$ 3,225	\$ 9,477	\$6,445	\$3,038	\$9,483
Capital assets	5,145	18,349	23,494	5,430	19,302	24,732
Total assets	\$ 11,397	\$ 21,574	\$ 32,971	\$11,875	\$22,340	\$34,215
Liabilities:						
Long-term debt outstanding	\$ 2,212	\$ 14,644	\$ 16,856	\$2,797	\$15,486	\$18,283
Other liabilities	171	98	269	157	146	303
Total liabilities	\$ 2,383	\$ 14,742	\$ 17,125	\$2,954	\$15,632	\$18,586
Net Assets:						
Invested in capital assets, net of debt	\$ 4,273	\$ 3,984	\$ 8,257	\$4,721	\$4,110	\$8,831
Restricted for:						
Transportation	4		4			
Debt service		233	233		227	227
Special projects	204		204	204		204
Unrestricted	4,533	2,615	7,148	3,996	2,371	6,367
Total net assets	\$ 9,014	\$ 6,832	\$ 15,846	\$8,921	\$6,708	\$15,629

The largest portion of the Town's net assets (52%) reflects its investment in capital assets (e.g. land, building, machinery and equipment) less any related debt, used to acquire those assets, that is still outstanding. These capital assets are used to provide services to citizens: consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Town's net assets (2.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7,148,000) may be used to meet the Town's ongoing obligations to citizens and creditors.

Net assets of the Governmental Activities at September 30, 2012, were \$9 million. Property taxes are the main source of revenues and represent approximately 79% of the revenue for governmental activities. Expenditures for Public Safety (Police, Fire Rescue, and Building Inspection) represent approximately 57% of Governmental activity expenditures. Increases in property tax and permit revenue coupled with decreased spending in the Town's administrative activities have resulted in a \$93,000 increase in General Fund net assets.

Net assets of the Business Type Activities (water and sewer) at September 30, 2012, were \$6.8 million. The cost of providing all Proprietary (Business Type) activities this year was \$4.2 million. As shown in the Statement of Revenues, Expenses, and Changes in Net Assets, amounts paid by customers for water and sewer services were less than operating expenses. The operating loss of \$727,549 was primarily due to due to current period depreciation of over \$1.06 million.

Town of Highland Beach
Changes in Net Assets
(In thousands)

	Governmental Activities 2012	Business Activities 2012	Total Activities 2012	Governmental Activities 2011	Business Activities 2011	Total Activities 2011
Revenues:						
Program revenues:						
Charges for services	\$ 945	\$ 2,995	\$ 3,940	\$868	\$3,157	\$4,025
Operating grants and contribution	13		13	13		13
Capital grants and contributions				5		5
General revenues:						
Property taxes	7,285		7,285	7,339		7,339
Utility taxes	277		277	294		294
Franchise fees	411		411	430		430
Sales and use taxes	261		261	297		297
State revenue sharing	114		114	109		109
Investment earnings	18	5	23	32	8	40
Miscellaneous	9	4	13	7	2	9
Net increase in fair value of investments	16	3	19	10	2	12
Total revenues	9,349	3,007	12,356	9,404	3,169	12,573
Expenses:						
Program expenses:						
General government	1,657		1,657	1,704		1,704
Public safety	5,153		5,153	5,208		5,208
Sanitation	572		572	530		530
Culture and recreation	525		525	560		560
Interest on long-term debt	61		61	81		81
Water and sewer		4,171	4,171		4,161	4,161
Total expenses	7,968	4,171	12,139	8,083	4,161	12,244
Excess (deficiency) before transfers	1,381	(1,164)	217	1,321	(992)	329
Transfers	(1,288)	1,288		(1,361)	1,361	
Increase (decrease) in net assets	93	124	217	(40)	369	329
Net assets – October 1,	8,921	6,708	15,629	8,961	6,339	15,300
Net assets – September 30,	\$ 9,014	\$ 6,832	\$ 15,846	\$8,921	\$6,708	\$15,629

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

As noted earlier, 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, unassigned fund balance serves as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2012 the Town's governmental funds reported combined ending fund balances of \$6.1 million, a decrease of approximately \$210,000 from the prior year. Approximately 61% of the combined ending fund balances (\$3.7 million) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder reserved, indicating that it is not available for new spending because it has either been assigned to provide 1) budget stabilization (\$1.7 million); 2) disaster relief (\$350,000); 3) liquidation of carry-overs from the prior year (\$40,000); 4) for a variety of other restricted purposes (\$208,000); or 5) is not in spendable form (\$105,000).

Budgetary Highlights-Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 64). The budget and actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund. Total General Fund expenditures of \$8.5 million were less than the final amended budget of \$8.8 million, a difference of approximately \$300,000. The difference can be attributed to savings realized from a new legal services contract, delays in capital projects, and personnel vacancies.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Town's investment in capital assets for its governmental and business type activities as of September 30, 2012 totaled \$23.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during the current fiscal year included the following:

Town of Highland Beach				
Capital Assets				
(In thousands)				
	Governmental	Business	Total	Total
	Activities	Activities	2012	2011
	2012	2012	2012	2011
Land	\$ 324	\$ 25	\$ 349	\$ 349
Idle property		1,357	1,357	1,357
Buildings and improvements	5,174	9,767	14,941	14,941
Improvements other than buildings	2,061	10,315	12,376	12,407
Furniture, fixtures and equipment	3,114	8,083	11,197	10,961
Total assets	\$ 10,673	\$ 29,547	\$ 40,220	\$ 40,015
Less accumulated depreciation	(5,528)	(11,198)	(16,726)	(15,284)
Total	\$ 5,145	\$ 18,349	\$ 23,494	\$ 24,731

Additional information on the Town's capital assets can be found in Note 4 of this report.

Debt Outstanding

The Town's outstanding bonded indebtedness (considering debt retirement) decreased by \$1,484,000 as follows:

Town of Highland Beach Outstanding Debt (in thousands)

	Governmental Activities	Business Activities	Total	Total
	2012	2012	2012	2011
Promissory Notes	\$1,699	\$ 3,755	\$ 5,454	\$ 6,270
Revolving Fund Loans		10,718	10,718	11,387
Total	\$ 1,699	\$ 14,473	\$ 16,172	\$ 17,657

Additional information on the Town's debt can be found in Note 5 of this report.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Town's 2012 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals included enhancing the level of services, increase the responsiveness of the local government to the needs of the public and to technologically improve the operation of the Town government.

Property taxes are the main source of revenues for governmental activities and represent approximately 78 percent of the General Fund budgeted revenues. The Town's property tax millage rate increased from a total of 4.3407 mills in 2012 to 4.8673 mills in 2013

The assessed taxable value of the Town increased by approximately 1.1%. This increase combined with the raising of the Town's millage rate has resulted in an increase to tax revenue sufficient enough to cover the operating deficit. Other estimated General Fund revenues are projected to be sufficient to cover the expenditures in the fiscal year 2013 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department, at the Town of Highland Beach, 3614 S. Ocean Boulevard, Highland Beach, Florida 33487.

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,941,657	\$ 2,329,444	\$ 8,271,101
Investments	61,889	10,179	72,068
Receivables (net)	155,104	480,060	635,164
Due from other governments	48,793		48,793
Inventories	3,643	6,263	9,906
Prepaid items	41,171	45,160	86,331
Restricted Assets			
Cash and cash equivalents		245,604	245,604
Deferred charges		108,028	108,028
Capital assets			
Non-depreciable			
Land	323,889	24,730	348,619
Idle property		1,356,970	1,356,970
Depreciable			
Buildings and improvements	5,174,519	9,767,168	14,941,687
Improvements other than buildings	2,060,761	10,314,733	12,375,494
Equipment	3,113,668	8,083,194	11,196,862
Less: accumulated depreciation	(5,528,075)	(11,197,551)	(16,725,626)
Total assets	<u>11,397,019</u>	<u>21,573,982</u>	<u>32,971,001</u>
Liabilities			
Accounts payable	109,401	60,807	170,208
Accrued liabilities	51,555	14,170	65,725
Accrued interest payable	9,773	10,430	20,203
Payable from restricted			
Accrued interest		12,509	12,509
Non-current liabilities			
Due within one year	684,157	881,330	1,565,487
Due in more than one year	1,527,660	13,762,885	15,290,545
Total liabilities	<u>2,382,546</u>	<u>14,742,131</u>	<u>17,124,677</u>
Net Assets			
Invested in capital assets, net of related debt	4,272,876	3,983,977	8,256,853
Restricted for:			
Debt service		233,095	233,095
Recreational land acquisition	189,874		189,874
Cultural activities	1,481		1,481
Law enforcement	6,836		6,836
Library activities	5,834		5,834
Tranportation	4,311		4,311
Unrestricted	4,533,261	2,614,779	7,148,040
Total net assets	<u>\$ 9,014,473</u>	<u>\$ 6,831,851</u>	<u>\$ 15,846,324</u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Activities
For the Year Ended September 30, 2012

Function/ Program Activities	Expenses	Program Revenues	
		Charges For Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 1,656,544	\$ 60,880	\$ 13,134
Public safety	5,152,662	412,314	
Culture recreation	524,797	5,106	
Sanitation	572,668	467,004	
Interest on long term debt	61,143		
Total governmental activities	<u>7,967,814</u>	<u>945,304</u>	<u>13,134</u>
Business-type activities:			
Water utility	3,332,869	1,992,304	
Sewer utility	838,703	1,002,973	
Total business-type activities	<u>4,171,572</u>	<u>2,995,277</u>	
Total government	<u>\$ 12,139,386</u>	<u>\$ 3,940,581</u>	<u>\$ 13,134</u>

General revenues:
Property taxes
Utility taxes
Franchise fees
Sales and use taxes
State revenue sharing unrestricted
Investment earnings
Net increase in fair value of investments
Miscellaneous
Transfers
Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$	\$ (1,582,530)	\$	\$ (1,582,530)
	(4,740,348)		(4,740,348)
	(519,691)		(519,691)
	(105,664)		(105,664)
	(61,143)		(61,143)
	<u>(7,009,376)</u>		<u>(7,009,376)</u>
		(1,340,565)	(1,340,565)
		164,270	164,270
		<u>(1,176,295)</u>	<u>(1,176,295)</u>
<u>\$</u>	<u>(7,009,376)</u>	<u>(1,176,295)</u>	<u>(8,185,671)</u>
	7,285,358		7,285,358
	276,844		276,844
	411,434		411,434
	261,339		261,339
	113,482		113,482
	17,511	5,025	22,536
	16,625	2,736	19,361
	8,622	3,979	12,601
	(1,288,400)	1,288,400	
	<u>7,102,815</u>	<u>1,300,140</u>	<u>8,402,955</u>
	93,439	123,845	217,284
	8,921,034	6,708,006	15,629,040
<u>\$</u>	<u>9,014,473</u>	<u>\$ 6,831,851</u>	<u>\$ 15,846,324</u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 5,739,682	\$ 201,975	\$ 5,941,657
Investments	59,839	2,050	61,889
Receivables (net)			
Accounts	155,104		155,104
Due from other governments	48,793		48,793
Inventory	3,643		3,643
Prepays	41,171		41,171
Total assets	\$ 6,048,232	\$ 204,025	\$ 6,252,257
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 109,401	\$	\$ 109,401
Accrued liabilities	51,555		51,555
Total liabilities	160,956		160,956
Fund balances			
Nonspendable			
Inventory	3,643		3,643
Prepays	41,171		41,171
SBA - Fund B	59,839		59,839
Restricted for:			
Library activities		5,834	5,834
Law enforcement		6,836	6,836
Recreational land acquisition		189,874	189,874
Cultural activities		1,481	1,481
Transportation	4,311		4,311
Assigned to:			
Disaster recovery	350,000		350,000
Mandatory reserves	1,693,317		1,693,317
Subsequent year expenditures	40,074		40,074
Unassigned	3,694,921		3,694,921
Total fund balances	5,887,276	204,025	6,091,301
Total liabilities and fund balances	\$ 6,048,232	\$ 204,025	\$ 6,252,257

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets
September 30, 2012

Fund balances total governmental funds		\$ 6,091,301
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 10,672,837	
Less accumulated depreciation	<u>(5,528,075)</u>	5,144,762
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Long term liabilities at year-end consist of:		
Compensated absences	(310,907)	
Other postemployment benefits	(201,917)	
Notes payable	(1,698,993)	
Accrued interest on long-term debt	<u>(9,773)</u>	<u>(2,221,590)</u>
Net assets of governmental activities		<u><u>\$ 9,014,473</u></u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 7,593,593	\$	\$ 7,593,593
Licenses and permits	809,022		809,022
Intergovernmental	358,103		358,103
Fines and forfeitures	19,832		19,832
Rent	50,200		50,200
Interest	17,140	371	17,511
Net increase in fair value of investments	16,075	550	16,625
Charges for services	476,145		476,145
Miscellaneous	266,254		266,254
Total revenues	<u>9,606,364</u>	<u>921</u>	<u>9,607,285</u>
Expenditures:			
Current			
General government	1,735,593		1,735,593
Public safety	5,092,071		5,092,071
Culture and recreation	484,551	297	484,848
Sanitation	421,181		421,181
Capital outlay	91,629		91,629
Debt service:			
Principal	639,833		639,833
Interest and fiscal charges	64,653		64,653
Total expenditures	<u>8,529,511</u>	<u>297</u>	<u>8,529,808</u>
Excess (deficiency) of revenues over (under expenditures)	<u>1,076,853</u>	<u>624</u>	<u>1,077,477</u>
Other financing sources (uses):			
Transfers out	<u>(1,288,400)</u>		<u>(1,288,400)</u>
Total other financing sources (uses)	<u>(1,288,400)</u>		<u>(1,288,400)</u>
Net change in fund balances	(211,547)	624	(210,923)
Fund balances, beginning of year	<u>6,098,823</u>	<u>203,401</u>	<u>6,302,224</u>
Fund balances, end of year	<u>\$ 5,887,276</u>	<u>\$ 204,025</u>	<u>\$ 6,091,301</u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
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, 2012

Net change in fund balances - Total governmental funds \$ (210,923)

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

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

Expenditures for capital assets	\$ 90,544	
Less: current year depreciation	<u>(375,587)</u>	(285,043)

The repayment of the principal of long term debt consumes financial resources of governmental funds, however, it does not have any effect on net assets.

Principal payments on debt	639,833
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Net effect of accrued interest on long-term debt

Decrease in accrued interest payable	3,510
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in other postemployment benefits	(24,984)
Change in long-term compensated absences	<u>(28,954)</u>

Change in net assets	<u><u>\$ 93,439</u></u>
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See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Water Utility	Sewer Utility	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 1,028,851	\$ 1,300,593	\$ 2,329,444
Investments	343	9,836	10,179
Accounts receivables (net)	311,519	168,541	480,060
Prepaid items	43,753	1,407	45,160
Supplies inventory	6,263		6,263
Restricted Assets			
Cash and cash equivalents	245,604		245,604
Total current assets	<u>1,636,333</u>	<u>1,480,377</u>	<u>3,116,710</u>
Non-current assets			
Deferred charges, net	108,028		108,028
Capital assets			
Non depreciable			
Land	24,730		24,730
Idle property	1,356,970		1,356,970
Depreciable			
Building and improvements	8,041,634	1,725,534	9,767,168
Improvements other than buildings	9,110,117	1,204,616	10,314,733
Equipment	7,669,755	413,439	8,083,194
Less accumulated depreciation	<u>(8,800,025)</u>	<u>(2,397,526)</u>	<u>(11,197,551)</u>
Total non-current assets	<u>17,511,209</u>	<u>946,063</u>	<u>18,457,272</u>
Total assets	<u>19,147,542</u>	<u>2,426,440</u>	<u>21,573,982</u>
Liabilities			
Current liabilities			
Accounts payable	17,024	43,783	60,807
Accrued liabilities	14,170		14,170
Accrued interest payable	10,430		10,430
Compensated absences payable	10,535		10,535
Payable from restricted			
Accrued interest	12,509		12,509
Current portion of long-term debt	870,795		870,795
Total current liabilities	<u>935,463</u>	<u>43,783</u>	<u>979,246</u>
Non-current liabilities			
Compensated absences payable	89,801		89,801
Other postemployment benefits	70,584		70,584
Long-term debt	13,602,500		13,602,500
Total non-current liabilities	<u>13,762,885</u>		<u>13,762,885</u>
Total liabilities	<u>14,698,348</u>	<u>43,783</u>	<u>14,742,131</u>
Net Assets			
Invested in capital assets, net of related debt	3,037,914	946,063	3,983,977
Restricted for debt service	233,095		233,095
Unrestricted	1,178,185	1,436,594	2,614,779
Total net assets	<u>\$ 4,449,194</u>	<u>\$ 2,382,657</u>	<u>\$ 6,831,851</u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	Water Utility	Sewer Utility	Total
Operating revenue			
Charges for services	\$ 1,992,304	\$ 1,002,973	\$ 2,995,277
Administrative fee	137,928		137,928
Total operating revenues	<u>2,130,232</u>	<u>1,002,973</u>	<u>3,133,205</u>
Operating expenses			
Personal services	871,461		871,461
Sewage disposal costs		671,323	671,323
Contractual services	23,158		23,158
Maintenance and repair	92,541	7,289	99,830
Meters and supplies	238,895	1,301	240,196
Utilities	262,606	29,373	291,979
Depreciation	943,241	122,035	1,065,276
Amortization	17,819		17,819
Administrative charges	257,632	137,928	395,560
Professional services	9,684		9,684
Other	167,086	7,382	174,468
Total operating expenses	<u>2,884,123</u>	<u>976,631</u>	<u>3,860,754</u>
Operating income (loss)	<u>(753,891)</u>	<u>26,342</u>	<u>(727,549)</u>
Nonoperating revenues (expenses)			
Interest revenue	2,471	2,554	5,025
Net increase in fair value of investments	93	2,643	2,736
Connection fees	3,979		3,979
Interest expense	(448,746)		(448,746)
Total nonoperating revenues (expenses)	<u>(442,203)</u>	<u>5,197</u>	<u>(437,006)</u>
Income (loss) before contributions and transfers	<u>(1,196,094)</u>	<u>31,539</u>	<u>(1,164,555)</u>
Transfers in	<u>1,288,400</u>		<u>1,288,400</u>
Change in net assets	92,306	31,539	123,845
Net assets, beginning of year	<u>4,356,888</u>	<u>2,351,118</u>	<u>6,708,006</u>
Net assets, end of year	<u>\$ 4,449,194</u>	<u>\$ 2,382,657</u>	<u>\$ 6,831,851</u>

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Water Utility	Sewer Utility	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 1,995,597	\$ 1,002,234	\$ 2,997,831
Receipts from interfund services provided	137,928		137,928
Payments to suppliers	(822,268)	(724,427)	(1,546,695)
Payments for interfund services used	(257,632)	(137,928)	(395,560)
Payments to employees	(868,298)		(868,298)
Net cash provided (used) by operating activities	185,327	139,879	325,206
Cash flows from non-capital financing activities:			
Transfers from other funds	1,288,400		1,288,400
Net cash provided by non-capital financing activities	1,288,400		1,288,400
Cash flows from capital and related financing activities:			
Principal paid on long term debt	(844,504)		(844,504)
Interest paid on long term debt	(450,007)		(450,007)
Payments to acquire and construct capital assets	(100,787)	(44,588)	(145,375)
Net cash (used) by capital and related financing activities	(1,395,298)	(44,588)	(1,439,886)
Cash flows from investing activities:			
Interest and dividends on investments	2,471	2,554	5,025
Sale of investments	81	2,339	2,420
Connection fees received	3,979		3,979
Net cash provided by investing activities	6,531	4,893	11,424
Net increase (decrease) in cash and cash equivalents	84,960	100,184	185,144
Cash and cash equivalents, beginning of year	1,189,495	1,200,409	2,389,904
Cash and cash equivalents, end of year	\$ 1,274,455	\$ 1,300,593	\$ 2,575,048

TOWN OF HIGHLAND BEACH, FLORIDA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Water Utility	Sewer Utility	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (753,891)	\$ 26,342	\$ (727,549)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	961,060	122,035	1,083,095
(Increase) decrease in:			
Accounts receivable	3,293	(739)	2,554
Inventory	21,643		21,643
Prepays	(41,753)	(1,407)	(43,160)
Increase (decrease) in:			
Accounts payable	(8,188)	(6,352)	(14,540)
Accrued liabilities	3,163		3,163
Total adjustments	939,218	113,537	1,052,755
Net cash provided (used) by operating activities	\$ 185,327	\$ 139,879	\$ 325,206
Noncash investing activities			
Unrealized gain in fair value of investments	\$ 16,075	\$ 550	\$ 16,625

See notes to the financial statements

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Highland Beach, Florida (the Town) was incorporated in 1949 pursuant to Senate Bill No. 418. The Town is governed by a Town Commission comprised of an elected Mayor, Vice Mayor and three Town Commissioners. The Town Commission appoints a Town Manager. The Town provides the following services: public safety, water and sewer systems, sanitation, streets and roads, planning and zoning, library, contract postal substation, and general administrative services.

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

Financial Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present the primary government and its component units. Component units are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the Town's combined financial statements to be misleading or incomplete. The primary government is considered financially accountable if it appoints a voting majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government.

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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 enterprise 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 soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Franchise taxes, licenses, and interest 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 Town.

The Town reports the following major governmental fund:

General Fund

The General Fund is the primary operating fund and is used to account for all financial resources applicable to the general operations of the Town government except those required to be accounted for in another fund.

The Town reports the following major enterprise funds:

Water Utility System Fund

The Water Utility System Fund accounts for the activities of providing water treatment and distribution service to the property owners of the Town.

Sewer Utility System Fund

The Sewer Utility System Fund accounts for the operation of the sewage pumping stations and collection systems to customers inside the Town's boundaries.

Additionally, the Town reports the following non-major funds:

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town reports the following special revenue funds:

Open Space and Recreation Land Fund
Library Donation Fund
Cultural Society Fund
Law Enforcement Fund

The Library Donation Fund and the Cultural Society Fund have legally adopted budgets.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has 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 to not follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's utility functions and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* 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 water and sewer utility funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

Pooled Cash and Investments

Pooled cash and investments include cash on hand and investments with the State Board Investment Pool. Resources of all funds have been combined into a pooled cash and investment system for the purpose of maximizing earnings. Interest earned on pooled cash and investments is allocated monthly based upon equity balances of the individual funds.

Investments are reported at fair value, which is determined by using various third party pricing sources. The Investment Pool, administered by the Florida State Board of Administration, is a "2A-7 like" pool and, thus, these investments are valued using the pooled share price.

Cash and cash equivalents, for purposes of the statement of cash flows, includes pooled cash and investments which are defined as short-term, highly liquid investments with original maturities of three months or less.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Pooled Cash and Investments (Continued)

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.

Inventories

Inventories are valued at cost determined on a first-in, first-out basis. Inventories in the enterprise funds consist of expendable parts and supplies held for consumption. The initial cost is recorded as an asset at the time the individual items are purchased and is charged against operations in the period when used. Inventories in the governmental funds consist of fuel. The Town accounts for these inventories using the consumption method, under which an expenditure is recognized only when inventory items are used. Reported inventories are equally offset by a fund balance reserve which indicates that it does not constitute "available spendable resources" even though it is a component of net current assets.

Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, bike paths, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation. The Town has elected to retroactively apply the capitalization requirements of GASB Statement No. 34 to major general infrastructure assets acquired in years prior to implementation of the Statement.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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 part of the capitalized value of the assets constructed.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40-50 years
Improvements other than buildings	5-50 years
Equipment and vehicles	3-10 years
Library books and materials	3-5 years

Compensated Absences

The Town's employees are granted compensated absence pay for vacation and sick leave in varying amounts based on length of service. Unused compensated absences are payable upon separation from service. Vacation and sick pay are accrued when incurred in the government-wide and Enterprise fund financial statements. A liability is reported in the governmental funds only if it has matured, for example, as a result of employee resignations or retirement. The General Fund is used to liquidate such amounts.

Long-Term Obligations

In the government-wide financial statements and enterprise funds 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 enterprise fund statement of net assets. Fees incurred in connection with a loan accounted for in the Water Utility Enterprise Fund have been deferred and capitalized as a deferred charge and are being amortized over the term of the loan. The amortization commenced in October 2004 when loan repayments commenced.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector, respectively. All property is reassessed according to its fair market value on January 1 of each year and each assessment roll is submitted to the State Department of Revenue for review to determine if the assessment rolls meet all of the appropriate requirements of State law. The assessed value of property within the corporate limits of the Town at January 1, 2011, upon which the 2011-12 levy was based, was approximately \$1.737 billion. State Statutes permit municipalities to levy ad valorem property taxes at a rate of up to 10 mills.

The tax levy of the Town is established by the Commission prior to October 1 of each year during the budget process. The Palm Beach County Property Appraiser incorporates the Town's millage into the total tax levy, which includes the County, County School Board, and special district tax requirements. The millage rate assessed by the Town for the year ended September 30, 2012, was 4.3407 (\$4.3407 for each \$1,000 of assessed valuation).

Taxes may be paid less a 4% discount in November or at declining discounts each month through the month of February. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Delinquent taxes bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations. Liens are filed on April 1 and tax certificates are sold July 1 to satisfy the lien. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

The Town does not accrue property taxes receivable based on the County's allocation of the Town's portion of County-held certificates for prior years, since they are immaterial.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Balance

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

1. Nonspendable fund balances – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
2. Restricted fund balance – Includes amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed fund balance – Includes amounts that can be used only for specific purposes pursuant to constraints imposed by the Town Commission by the adoption of an ordinance, the Town’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action employed to previously commit those amounts.
4. Assigned fund balance – Includes amounts the Town intends to be used for specific purposes, but are neither restricted nor committed. Assignments can be made by action of the Town Commission or authority may be delegated to the Town Manager.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Balance (Continued)

5. Unassigned fund balance – Includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

The Town Commission has assigned fund balance for mandatory reserves for the purpose of protection against cash flow shortfalls related to the timing of projected revenue receipts and to maintain a budget stabilization commitment. This amount shall be equal to but not less than 16.7% of General Fund operating expenditures, net of funds set aside for reserves.

The Town Commission has assigned fund balance for disaster recovery in order to provide the resources necessary to ensure continued operations and maintenance of services to the public. The amount shall be increased by \$50,000 per fiscal year up to a maximum amount of \$500,000.

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

Disbursement of committed or assigned fund balances shall be authorized by a resolution of the Town Commission and may be approved by inclusion in the approved annual budget (and amendments thereto), or shall be authorized pursuant to any ordinances, resolutions or procedures adopted by the Town Commission (such as the Town's procurement code).

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Net Assets

Equity in the government-wide and enterprise fund statements are classified as net assets and displayed in following three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by:
1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Estimates

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

Encumbrances

Budgets in governmental funds are encumbered upon issuance of purchase orders, contracts, or other forms of legal commitments. Appropriations expire at year end, even if encumbered, but it is the Town’s policy to reappropriate such amounts at the beginning of the next fiscal year.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

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

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 directly incorporates the applicable guidance from FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

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

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

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes.

Investments

The Town has adopted an investment policy to establish guidelines for the efficient management of its cash reserves. The policy permits investments as follows:

1. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Chapter 163, Florida Statutes.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Chapter 280, Florida Statutes.
4. Direct obligations of the U.S. Treasury.
5. Securities of, or other interests in, any open-end or closed-end management-type investment company, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof, and to repurchase agreements fully collateralized by such United States Government obligations.
6. Repurchase agreements whose underlying purchased securities consist of the permitted investments listed above.
7. Other investments authorized by ordinance of the Town of Highland Beach.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments (Continued)

The State Board of Administration is part of the Local Governments Surplus Funds Trust Fund and is governed by Ch. 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Governments Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Pool coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A, (Local Government Surplus Funds Trust Fund Investment Pool) consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B, (Surplus Funds Trust Fund) consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

On August 3, 2009, the SBA announced “Florida PRIME” as the highly enhanced version of the SBA’s prior Local Government Investment Pool. Pool A is now referred to as Florida PRIME, and Pool B is referred to as Fund B. From December 2007 through September 2009, the SBA transferred a total of \$1.46 billion in liquid assets from Fund B to participants in Florida PRIME. This amount represents approximately 73% of their original adjusted Fund B balances.

At September 30, 2012, Florida PRIME was rated AAAM by Standard and Poor’s. Florida PRIME is considered a SEC 2a7-like fund, thus, the account balances should be considered its fair value. Fund B is not rated by any national rating agency.

The weighted average days to maturity (WAM) of Florida PRIME at September 30, 2012 was 39 days. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of Florida PRIME to interest rate changes.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The weighted average life based on expected cash flows (WAL) of Fund B at September 30, 2012 was 4.08 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

As of September 30, 2012, the Town of Highland Beach had \$255,072 invested in Florida PRIME. The cost basis of Fund B as of September 30, 2012 was \$75,943 and the fair value and adjusted book value was \$72,068. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

As of September 30, 2012, the Town had the following investments. The investment in the State Board of Administration Investment Florida PRIME pool is reported as cash and cash equivalents in the balance sheet. The investment in the Fund B is reported as investments.

Investment	Weighted Average Maturity	Fair Value
State Board of Administration Investment Pool		
Florida PRIME	39 days	\$ 255,072
Fund B	4.08 years	72,068
		\$ 327,140

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. As of September 30, 2012, Florida PRIME was rated AAAM by Standard and Poor's Ratings Services. The State Board of Administration Fund B is not rated by any nationally recognized rating agency.

Interest Rate Risk

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

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 3 – RECEIVABLES

Receivables as of September 30, 2012, for the Town’s individual major fund’s governmental activities and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
	<u>General Fund</u>	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Receivables:				
Accounts receivable	\$155,104	\$311,519	\$168,541	\$635,164
Intergovernmental	48,793			48,793
Less allowance for uncollectibles				
Net total receivables	<u>\$203,897</u>	<u>\$311,519</u>	<u>\$168,541</u>	<u>\$683,957</u>

NOTE 4 – CAPITAL ASSETS

Depreciation expense was charged to functions as follows:

<u>Governmental activities:</u>	
General government	\$ 162,998
Public safety	28,435
Sanitation	32,667
Culture and recreation	151,487
Total depreciation expense-governmental activities	<u>\$ 375,587</u>
<u>Business-type activities:</u>	
Water utility system	\$ 943,241
Sewer utility system	122,035
Total depreciation expense-business-type activities	<u>\$1,065,276</u>

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4 – CAPITAL ASSETS (Continued)

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 323,889	\$	\$	\$ 323,889
Total capital assets not being depreciated	323,889			323,889
Capital assets being depreciated:				
Buildings	5,174,519			5,174,519
Improvements other than buildings	2,060,761			2,060,761
Equipment, furniture, and books	3,023,124	90,544		3,113,668
Total capital assets being depreciated	10,258,404	90,544		10,348,948
Less accumulated depreciation for:				
Buildings	(1,538,466)	(133,127)		(1,671,593)
Improvements other than buildings	(1,132,275)	(105,055)		(1,237,330)
Equipment, furniture and books	(2,481,747)	(137,405)		(2,619,152)
Total accumulated depreciation	(5,152,488)	(375,587)		(5,528,075)
Governmental activities Capital assets, net	<u>\$ 5,429,805</u>	<u>\$ (285,043)</u>	<u>\$</u>	<u>\$ 5,144,762</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 24,730	\$	\$	\$ 24,730
Idle property	1,356,970			1,356,970
Total capital assets not being depreciated	1,381,700			1,381,700
Capital assets being depreciated:				
Buildings	9,767,168			9,767,168
Improvements other than buildings	10,347,240		(32,507)	10,314,733
Equipment	7,937,819	145,375		8,083,194
Total capital assets being depreciated	28,052,227	145,375	(32,507)	28,165,095
Less accumulated depreciation for:				
Buildings	(2,954,779)	(243,942)		(3,198,721)
Improvements other than buildings	(3,701,018)	(258,457)		(3,959,475)
Equipment	(3,476,478)	(562,877)		(4,039,355)
Total accumulated depreciation	(10,132,275)	(1,065,276)		(11,197,551)
Business-type activities Capital assets, net	<u>\$ 19,301,652</u>	<u>\$ (919,901)</u>	<u>\$ (32,507)</u>	<u>\$ 18,349,244</u>

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 – LONG-TERM LIABILITIES

During the year ended September 30, 2012, the following changes occurred in long-term liabilities:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012	Due Within One Year
Governmental activities					
GOB Promissory note, 2004B	\$ 708,333	\$	\$ 250,000	\$ 458,333	\$ 250,000
Promissory note, 2005	1,630,493		389,833	1,240,660	401,512
Total notes payable	2,338,826		639,833	1,698,993	651,512
Other postemployment benefits	176,933	24,984		201,917	
Compensated absences	281,953	196,564	167,610	310,907	32,645
Total governmental activities	<u>\$ 2,797,712</u>	<u>\$ 221,548</u>	<u>\$ 807,443</u>	<u>\$ 2,211,817</u>	<u>\$ 684,157</u>

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012	Due Within One Year
Business-type activities					
Promissory note, 2005	\$ 37,063	\$	\$ 8,862	\$ 28,201	\$ 9,127
Promissory note, 2007	3,894,178		166,854	3,727,324	172,309
Revolving fund loan DW 502901	7,709,250		520,762	7,188,488	535,815
Revolving fund loan DW 500200	2,900,219		115,964	2,784,255	120,640
Revolving fund loan DW 500201	777,089		32,062	745,027	32,904
Total notes and loans payable	15,317,799		844,504	14,473,295	870,795
Other post employment benefits	63,249	7,335		70,584	
Compensated absences	104,664	65,322	69,650	100,336	10,535
Total business-type activities	<u>\$15,485,712</u>	<u>\$72,657</u>	<u>\$914,154</u>	<u>\$14,644,215</u>	<u>\$ 881,330</u>

Interest Expense

Total interest costs incurred and paid on all Town debt for the year ended September 30, 2012, were \$509,871 and \$514,660 respectively.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Long-term debt at September 30, 2012, consists of the following individual issues:

General Obligation Promissory Note, 2004B

The \$2,000,000 promissory note was obtained for the purpose of financing construction of a new library building. Interest only is due for the first twenty-four months. Thereafter, interest is due monthly and principal is due in semi-annual installments through July 2014. For the interest only period, the annual interest rate is 63.7% of the 30 day LIBOR plus 67 basis points. After the interest only period, the interest rate will be 67.5% of the 8 year U.S. Swap “ask” rate plus 15 basis points. As of September 30, 2012, the interest rate was 3.4%. The note is secured by a general obligation pledge of the Town. Loan covenants require the Town to demonstrate debt service coverage of no less than 110% from the pledged source of revenues.

Based on the rate as of September 30, 2012, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 250,000	\$ 11,691	\$ 261,691
2014	<u>208,333</u>	<u>3,248</u>	<u>211,581</u>
Total	<u>\$ 458,333</u>	<u>\$ 14,939</u>	<u>\$ 473,272</u>

Promissory Note, 2005

The \$3,828,668 promissory note was issued to refinance the \$4,485,000 Water and Sewer Revenue Bonds, Series 1995. The note is secured by a pledge of the half-cent sales tax revenues and the discretionary communication service tax revenues. Principal and interest paid for the current fiscal year was \$444,195 and pledged half-cent sales taxes and communication service taxes totaled \$508,331 for the year. The rate covenant for the note requires pledged revenues to be at least 125% of the scheduled principal and interest on the note in each fiscal year. The pledged revenues for the current fiscal year were approximately \$47,000 less than required to meet the rate covenant.

At September 30, 2012, principal and interest to maturity in 2015 to be paid from pledged future revenues totaled \$1,332,584. The note bears interest at the rate of 2.88% per annum. The principal and interest are payable in twenty equal installments of \$222,097 beginning on January 1, 2006, and on the first day of January and July thereafter, until July 1, 2015.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Promissory Note, 2005 (Continued)

The note is allocated between governmental activities and business-type activities in the government-wide statements. The amount reported as business-type activities is also reported in the Water Utility Enterprise Fund and is expected to be repaid from enterprise revenues. Amounts reported as governmental activities will be repaid from the General Fund. The balance of the note outstanding as of September 30, 2012, is as follows:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 1,240,660
Business-type activities	<u>28,201</u>
	<u>\$ 1,268,861</u>

Annual debt service requirements to maturity are as follows:

Governmental Activities:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 401,512	\$ 32,810	\$ 434,322
2014	413,110	21,212	434,322
2015	<u>426,038</u>	<u>8,284</u>	<u>434,322</u>
Total	<u>\$1,240,660</u>	<u>\$ 62,306</u>	<u>\$1,302,966</u>

Business-Type Activities:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 9,127	\$ 746	\$ 9,873
2014	9,390	482	9,872
2015	<u>9,684</u>	<u>189</u>	<u>9,873</u>
Total	<u>\$28,201</u>	<u>\$1,417</u>	<u>\$29,618</u>

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Promissory Note, 2007

The \$4,400,000 promissory note was obtained for the purpose of financing the expansion of the Town’s water treatment plant. As of September 30, 2012, proceeds in the amount of \$4,299,000 have been received from the note. Interest only is due for the first twenty-four months. Thereafter, interest and principal is due in monthly installments through February, 2029. For the interest only period, the annual interest rate shall be 0.67% plus 63.7% of the LIBOR. After the interest only period, the interest rate will be a fixed rate at 84% of the ask yield on the non-callable U.S. Treasury obligation with a maturity closest to but not less than 10 years after the Fixed Rate Conversion Date, as quoted in the Wall Street Journal on the date two business days before the Fixed Rate Conversion Date. As of September 30, 2012, the interest rate was 3.41%.

Based on the rate as of September 30, 2012, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 172,309	\$ 124,571	\$ 296,880
2014	178,285	118,595	296,880
2015	184,467	112,413	296,880
2016	190,865	106,015	296,880
2017	197,484	99,396	296,880
2018-2022	1,095,023	389,379	1,484,402
2023-2027	1,298,530	185,872	1,484,402
2028-2029	<u>410,361</u>	<u>10,597</u>	<u>420,958</u>
Total	<u>\$3,727,324</u>	<u>\$1,146,838</u>	<u>\$ 4,874,162</u>

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

State Revolving Fund Loan - DW 502901

The State of Florida Department of Environmental Protection, State Revolving Fund Loan was obtained for the purpose of constructing a reverse osmosis water treatment facility. The loan is payable from and secured by ad valorem taxes. Principal and interest paid for the current fiscal year was \$738,424 and pledged ad valorem taxes were \$7,285,358. At September 30, 2012, principal and interest to maturity in 2024 to be paid from pledged future revenues totaled \$8,491,874. As of September 30, 2012, outstanding principal, including capitalized interest, was \$7,188,488. The loan bears interest at 2.87%. The Town must fix, establish, maintain and collect ad valorem taxes which will at least equal 115% of the debt service requirements each fiscal year plus 100% of all additional debt service requirements.

Annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2012 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 535,815	\$ 202,609	\$ 738,424
2014	551,305	187,119	738,424
2015	567,243	171,181	738,424
2016	583,644	154,780	738,424
2017	600,521	137,903	738,424
2018-2022	3,273,400	418,719	3,692,119
2023-2024	<u>1,076,560</u>	<u>31,075</u>	<u>1,107,635</u>
Total	<u>\$7,188,488</u>	<u>\$1,303,386</u>	<u>\$8,491,874</u>

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

State Revolving Fund Loan – DW 500200

The State of Florida Department of Environmental Protection, State Revolving Fund Loan was obtained for the project referred to as the State Road A1A Water Transmission Main Replacement. The loan is payable from and secured by ad valorem taxes. Principal and interest paid for the current fiscal year was \$197,166 and pledged ad valorem taxes were \$7,285,358. At September 30, 2012, principal and interest to maturity in 2030 to be paid from pledged future revenues totaled \$3,569,597. As of September 30, 2012, outstanding principal, including capitalized interest, was \$2,784,255. The loan bears interest at 2.82%. The Town must fix, establish, maintain and collect ad valorem taxes which will at least equal 115% of the debt service requirements each fiscal year plus 100% of all additional debt service requirements.

Estimated annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2012 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 120,640	\$ 77,671	\$ 198,311
2014	124,066	74,245	198,311
2015	127,589	70,722	198,311
2016	131,212	67,099	198,311
2017	134,938	63,373	198,311
2018-2022	734,397	257,158	991,555
2023-2027	844,771	146,784	991,555
2028-2030	<u>566,642</u>	<u>28,290</u>	<u>594,932</u>
Total	<u>\$ 2,784,255</u>	<u>\$ 785,342</u>	<u>\$3,569,597</u>

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

State Revolving Fund Loan - DW500201

The State of Florida Department of Environmental Protection, State Revolving Fund Loan was obtained for the project referred to as the State Road A1A Water Transmission Main Replacement. The loan is payable from and secured by ad valorem taxes. Principal and interest paid for the current fiscal year was \$52,136 and pledged ad valorem taxes were \$7,285,358. At September 30, 2012, principal and interest to maturity in 2030 to be paid from pledged future revenues totaled \$938,450. As of September 30, 2012, outstanding principal, including capitalized interest, was \$745,027. The loan bears interest at 2.61%. The Town must fix, establish, maintain and collect ad valorem taxes which will at least equal 115% of the debt service requirements each fiscal year plus 100% of all additional debt service requirements.

Estimated annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2012 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 32,904	\$ 19,232	\$ 52,136
2014	33,768	18,368	52,136
2015	34,656	17,480	52,136
2016	35,566	16,570	52,136
2017	36,500	15,636	52,136
2018-2022	197,400	63,281	260,681
2023-2027	224,727	35,954	260,681
2028-2030	<u>149,506</u>	<u>6,902</u>	<u>156,408</u>
Total	<u>\$745,027</u>	<u>\$193,423</u>	<u>\$938,450</u>

NOTE 6 – INTERFUND TRANSFERS

The following is a summary of interfund transfers for the year ended September 30, 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ _____	\$1,288,400
Water utility fund	<u>1,288,400</u>	_____
Total transfers	<u>\$1,288,400</u>	<u>\$1,288,400</u>

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 6 – INTERFUND TRANSFERS (Continued)

Transactions for services rendered or facilities provided are recorded as revenue in the receiving fund and expenditures in the disbursing fund. Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them are recorded as transfers in and out.

NOTE 7 - DEFINED CONTRIBUTION PLANS

Town of Highland Beach Retirement Plan

The Town of Highland Beach Retirement Plan is a defined contribution Money Purchase 401(a) Plan established by the Town to provide benefits at retirement to the employees of the Town. All full-time employees age 21 or over must participate in the Plan after six (6) months of continuous service. Employees' interest in the Town's contributions vest as follows:

Employees hired before September 30, 1991:

Years of Service Completed	Specified Percent Vested
One	50%
Two	75%
Three	100%

Employees hired after September 30, 1991:

Years of Service Completed	Specified Percent Vested
Three	33%
Four	66%
Five	100%

The total payroll for all employees and payroll for employees covered by the Plan for the current year were \$2,833,879 and \$149,710, respectively. The Town is required to contribute 8% of each eligible employee's base salary. Plan members are required to contribute 2% of their base salary. If an employee contributes an additional 1% of base salary, the Town will contribute an additional 2% of the employee's base salary. If an employee contributes an additional 2% of base salary, the Town will contribute an additional 4% of the employee's base salary. For the year ended September 30, 2012, the Town and the covered employees made the required contributions of \$17,965 and \$5,988, respectively, for a total of \$23,953.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 – DEFINED CONTRIBUTION PLANS (Continued)

Town of Highland Beach Retirement Plan (Continued)

Plan revisions and contribution requirements are established and may be amended by the Town Commission. The Plan is administered by the International City Management Association Retirement Corporation, which provides various pooled investment alternatives. Participants direct the allocation of contributions to investment alternatives offered under the Plan. Because the Town does not hold or administer funds for the Plan, the Plan does not meet the criteria for inclusion in the Town's financial statements as a fiduciary fund.

On August 2, 2005, the Town approved Resolutions 841 and 842 regarding participation in retirement plans for the Town's employees. Resolution 841 established the policy that all general employees of the Town, except those excluded by law, shall participate in the Florida Retirement System effective October 1, 2005. Resolution 842 amended the Money Purchase Pension Plan effective October 1, 2005. Plan assets were transferred directly to the Florida Retirement System.

Employees participating in the Money Purchase Pension Plan, on October 1, 2005 had the option to:

- a. Elect to remain in the Money Purchase Pension Plan and to continue to participate according to plan provisions.
- b. Elect to withdraw from the Money Purchase Pension Plan and join the Florida Retirement System. Employees allowed funds to revert back to the Town to purchase past service as follows:
 - 1) The entire ending account balance of the Town's portion of the Money Purchase Pension Plan as of September 30, 2006.
 - 2) The employee's ending account balance of the Money Purchase Pension Plan to the extent of the Florida Retirement System's buy back of past service amounts as of September 30, 2006.
- c. Elect to retain their vested membership credit with the Money Purchase Pension Plan and begin membership in the Florida Retirement System effective October 1, 2005, with the understanding that they may not purchase past service in the Florida Retirement system for time credited under the Money Purchase Pension Plan.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 7 – DEFINED CONTRIBUTION PLANS (Continued)

Town of Highland Beach Voluntary Retirement Plan

On September 5, 2006, the Town approved Resolution 864 establishing the Town of Highland Beach Voluntary Retirement Plan. The Plan is a defined contribution Money Purchase 401 Plan to provide benefits at retirement to the employees of the Town. The effective date of the Plan was October 1, 2006. All employees age 21 or over may participate in the Plan. Participants may make voluntary pretax contributions to the Plan based upon a percentage of their base payroll. The Town does not make contributions to the Plan. For the year ended September 30, 2012, Town employees did not make any voluntary contributions to the Plan.

The Plan is administered by the International City Management Association Retirement Corporation, which provides various pooled investment alternatives. Participants direct the allocation of contributions to investment alternatives offered under the Plan. Plan revisions and contribution requirements are established and may be amended by the Town Commission. Because the Town does not hold or administer funds for the Plan, the Plan does not meet the criteria for inclusion in the Town's financial statements as a fiduciary fund.

NOTE 8 – FLORIDA RETIREMENT SYSTEM

Florida Retirement System Pension Plan

Plan Description

Effective October 1, 2005, employees of the Town were given the option to either remain in the Town of Highland Beach Retirement Plan or join the Florida Retirement System. The Florida Retirement System includes the Florida Retirement System Pension Plan, a cost sharing, multiple-employer, public retirement system controlled by the State Legislature and administered by the State of Florida Department of Administration, Division of Retirement. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. A post-employment health insurance subsidy is also provided to eligible employees through the Retiree Health Insurance Subsidy Program. Benefits are established by Chapter 121, Florida Statutes, and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by an act of the Florida Legislature.

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 8 – FLORIDA RETIREMENT SYSTEM (Continued)

Florida Retirement System Pension Plan (Continued)

Funding Policy

Participating employers are required to make monthly contributions based upon statewide contribution rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer and employee contribution rates are established by state law as a level percentage of payroll. Employer contribution rates are determined using the entry-age actuarial cost method. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. Unfunded actuarial liability as a result of past and future plan benefit changes, assumption changes, or methodology changes, and actuarial gains and losses are being amortized over 30 years, using level percentage of payroll amounts. Only gains reserved for rate stabilization will be amortized on a rolling 10 percent basis, as a level dollar amount.

The contribution rates by job class for the Town’s employees at September 30, 2012, were as follows: regular employees 8.18%, special risk employees 17.90%, senior management service employees 9.30%, and elected officials 13.23%. These rates include a 3.00% employee contribution, 1.11% for the Retiree Health Insurance Subsidy Program discussed below, and a 0.03% administrative fee.

The Town’s contributions to the Florida Retirement System Pension Plan for the fiscal years ending September 30, 2010 through 2012 were equal to 100% of the required contributions for each fiscal year. The contributions are summarized below.

	2010	2011	2012
Employer	\$ 266,786	\$ 270,843	\$ 174,270
Employee		15,278	59,471
Total	\$ 266,786	\$ 286,121	\$ 233,741

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 – FLORIDA RETIREMENT SYSTEM (Continued)

Retiree Health Insurance Subsidy Program

Plan Description

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

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

Funding Policy

The State's current funding policy for the HIS is pay-as-you-go and provides for monthly employer contributions currently set as the legislatively determined rate of 1.11% of annual covered payroll. The consulting actuary recommends rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. The GASB annual required contribution (ARC) calculated by the consulting actuary in the July 1, 2012 actuarial valuation for the fiscal year ending June 30, 2012 is 1.71% of active payroll (including DROP payroll).

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

The Town's contributions to the Retiree Health Insurance Subsidy Program for the fiscal years ending September 30, 2010 through 2012 were \$24,940, \$26,857 and \$29,099 respectively, which were equal to 100% of the required contributions for each fiscal year.

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 – FLORIDA RETIREMENT SYSTEM (Continued)

Florida Retirement System Investment Plan

Plan Description

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

Funding Policy.

Participating employers are required to make contributions based upon statewide contributions rates. The contribution rates by job class for the Town's employees at September 30, 2012, were as follows: regular employees 8.18%, special risk employees 17.90%, senior management service employees 9.30%, and elected officials 13.23%. These rates include a 3.00% employee contribution, 1.11% for the Retiree Health Insurance Subsidy Program, and a 0.03% administrative fee.

The Town's total payroll for the year ended September 30, 2012 was \$2,833,879 and payroll for employees covered by the Plan was \$529,633. The Town and the covered employees made the required contributions of \$25,464 and \$15,889, respectively.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Town implemented Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective October 1, 2008. The Town elected to implement prospectively, and the change in accounting principle had no effect on changes in net assets/fund equity for prior periods. Retirees of the Town pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other post employment benefits (OPEB) under GASB 45.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Plan Description

The Town provides postemployment benefits to its retired employees through a single employer defined benefit health care plan administered by the Town. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the Town and eligible dependents, may continue to participate in the Town's medical and prescription drug plan. The Town subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The plan has no assets and does not issue a separate financial report.

Funding Policy

Currently, the Town's other postemployment benefits are unfunded. That is, the Town Commission has not established a separate trust fund or equivalent arrangement into which the Town would make contributions to advance fund the obligation. The Town does not directly make a contribution to the plan on behalf of retirees. Retirees and their beneficiaries pay the same group rates as are charged to the Town for active employees by its healthcare provider. However, the Town's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits as an employer contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Town or its active employees for coverage of the retirees and their dependents for the year net of the retiree's own payments for the year. As of September 30, 2012, three retirees received other postemployment benefits (including one retiree covered under the Town's health plan). The Town provided required contributions of \$4,354 toward the annual OPEB cost, in the form of age adjusted premiums paid on behalf of retirees, and net of retiree contributions totaling \$7,953.

Annual OPEB Cost and Net OPEB Obligation

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

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Required contribution rate - employer	Pay-as-you-go
Required contribution rate - plan members	N/A
Annual required contribution (ARC)	\$ 38,052
Interest on net OPEB obligation	7,205
Adjustment to annual required contribution	<u>(8,584)</u>
Annual OPEB cost	36,673
Employer contributions	<u>(4,354)</u>
Increase in net OPEB obligation	32,319
Net OPEB obligation (NOO) October 1, 2011	<u>240,182</u>
Net OPEB obligation (NOO) September 30, 2012	<u><u>\$ 272,501</u></u>

Trend Information

<u>Three-Year Trend Information</u>			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/10	\$ 80,020	0%	\$ 156,962
09/30/11	\$ 83,220	0%	\$ 240,182
09/30/12	\$ 36,673	12%	\$ 272,501

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funded Status

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

Actuarial valuation date	09/30/12
Actuarial accrued liability	\$ 175,617
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	\$ 175,617
Funded ratio	0.0%
Covered payroll	\$1,942,955
UAAL as a percentage of covered payroll	9%

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Town implemented GASB 45 during the fiscal year ended September 30, 2009, and elected to apply the statement prospectively. Consequently, there are no disclosures for prior years. The Plan is required to have an actuarial valuation every three years. The next valuation is scheduled for September 30, 2015. The Town has not contributed assets to the plan at this time.

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions

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

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 3.00% was used. An inflation rate of 1.8% was assumed. In addition, the Entry Age Normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2012 was 30 years. The expected rate of increase in health insurance premiums start at 8.00% for the fiscal year ending in 2013 and 7.50% for 2014, grading down to 3.50% at the ultimate trend rate by 2022.

As authorized by GASB 45, the Alternative Measurement Method allows the employer to use simplifications of certain assumptions in measuring actuarial accrued liabilities and the ARC. The following simplifying assumptions were made:

- Assumptions of marital status for active employees have been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 75%. For active employees, spouses' genders were assumed to be the opposite of the members' genders and females were assumed three years younger than their spouses. Covered spouse data were collected for current retired plan members as of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.
- Life expectancies were based on the 2004 United States Male and Female life tables.
- Non-group-specific age based turnover data provided in GASB 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits paid.
- Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculation of the present value of benefits to be paid.

**TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE 10 – ADMINISTRATIVE CHARGE BY THE GENERAL FUND TO THE ENTERPRISE FUND

During the year ended September 30, 2012, the cost of administrative services rendered by the General Fund to the Water Utility Enterprise Fund was shown as revenue in the General Fund and as an operating expense in the enterprise. The amount charged by the General Fund was \$257,632.

NOTE 11 – ADMINISTRATIVE CHARGE BY THE WATER DEPARTMENT TO THE SEWER DEPARTMENT

During the year ended September 30, 2012, the cost of administrative services rendered by the Water Utility Enterprise Fund to the Sewer Utility Enterprise Fund was shown as revenue in the Water Fund and as an operating expense in the Sewer Fund. The amount charged by the Water Fund for 2012 was \$137,928.

NOTE 12 – COMMITMENTS

Construction Commitments

As of September 30, 2012, the Town had entered into the following commitment for construction of improvement for the reverse osmosis water plant.

<u>Project</u>	<u>Project Authorized Amount</u>	<u>Amount Completed 09/30/12</u>	<u>Balance to Complete 09/30/12</u>
Chemical Supply Line	\$ 96,742	\$	\$ 96,742

Encumbrances

At September 30, 2012, the Town had the following encumbrances:

General Fund	\$ 40,074
Water Fund	<u>98,231</u>
Total	<u>\$ 138,305</u>

TOWN OF HIGHLAND BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 13 – INTERLOCAL GOVERNMENTAL AGREEMENTS

The Town has an agreement with the City of Delray Beach (the City) under which the City provides fire protection and fire rescue services. The term of the agreement is for fifteen years, beginning October 1, 2002, and extending through September 30, 2017, with options to renew for additional periods of ten years each upon the mutual agreement of both parties. Under the terms of the agreement, the City charges the Town a flat rate, which is adjusted annually based on changes in the consumer price index. The amount paid for the year ended September 30, 2012 was \$2,951,886.

The Town has a second Interlocal Agreement with the City of Delray Beach under which the City provides sewage disposal services to the Town. Under the terms of the agreement, which will expire in 2030, the City charges the Town a rate per gallon based on the cost of providing the services. For the year ended September 30, 2012, the Town was charged \$671,323 for sewage disposal services.

NOTE 14 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town is also covered by Florida Statutes under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of municipalities to individual claims of \$200,000 and \$300,000 for all claims relating to the same accident. There were no changes in insurance coverage from the prior year. During the year ended September 30, 2012, one settled claim exceeded insurance coverage. There were no other settled claims which exceeded insurance coverage during the past three fiscal years.

NOTE 15 – CONTINGENCIES

The Town is involved in various litigations and claims arising in the course of operations. It is the opinion of legal counsel that the likelihood of unfavorable outcome and the amounts of potential losses cannot be reasonably determined at this time. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

NOTE 16 – SUBSEQUENT EVENT

In October 2012, Hurricane Sandy struck south Florida resulting in significant damage to the Town's beaches. The Town has engaged a qualified coastal engineer to prepare a feasibility study for beach restoration alternatives. An estimate of the loss is not presently available. The loss is not covered by insurance.

TOWN OF HIGHLAND BEACH, FLORIDA
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2012

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes				
Ad valorem taxes	\$ 7,237,698	\$ 7,237,698	\$ 7,285,358	\$ 47,660
Local option gas tax	33,800	33,800	29,852	(3,948)
Communications service tax	286,000	286,000	276,844	(9,156)
Local busines tax	2,000	2,000	1,539	(461)
Total taxes	<u>7,559,498</u>	<u>7,559,498</u>	<u>7,593,593</u>	<u>34,095</u>
Licenses and permits				
Franchise fees	396,000	396,000	411,434	15,434
Building permits	260,000	260,000	397,588	137,588
Total licenses and permits	<u>656,000</u>	<u>656,000</u>	<u>809,022</u>	<u>153,022</u>
Intergovernmental				
Grants	12,915	12,915	13,134	219
State revenue sharing	78,000	78,000	77,105	(895)
Alcoholic beverage licenses	645	645	636	(9)
Half cent sales tax	225,000	225,000	231,487	6,487
Motor fuel tax rebate	1,100	1,100	1,223	123
Local shared revenues	27,000	27,000	34,518	7,518
Total intergovernmental	<u>344,660</u>	<u>344,660</u>	<u>358,103</u>	<u>13,443</u>
Fines and forfeitures				
Court fines	8,500	8,500	11,761	3,261
Library fines and fees	5,500	5,500	5,106	(394)
Violation of local ordinance			866	866
Miscellaneous	2,000	2,000	2,099	99
Total fines and forfeitures	<u>16,000</u>	<u>16,000</u>	<u>19,832</u>	<u>3,832</u>
Rent				
U.S. Postal Station	25,000	25,000	25,000	
Sprint PCS	25,200	25,200	25,200	
Total rent	<u>50,200</u>	<u>50,200</u>	<u>50,200</u>	
Interest				
Interest on investment	60,000	60,000	14,026	(45,974)
Tax collector interest	3,000	3,000	3,114	114
Total interest	<u>63,000</u>	<u>63,000</u>	<u>17,140</u>	<u>(45,860)</u>
Net increase in fair value of investments			<u>16,075</u>	<u>16,075</u>

(continued)

TOWN OF HIGHLAND BEACH, FLORIDA
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2012
(Continued)

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues (continued):				
Charges for services				
Zoning fees	\$ 1,500	\$ 1,500	\$ 1,885	\$ 385
Sales of documents	5,100	5,100	7,256	2,156
Solid waste fees	466,000	466,000	467,004	1,004
Total charges for services	<u>472,600</u>	<u>472,600</u>	<u>476,145</u>	<u>3,545</u>
Miscellaneous				
Administrative reimbursements	257,632	257,632	257,632	
Insurance reimbursements			782	782
Other	10,000	10,000	7,840	(2,160)
Total miscellaneous	<u>267,632</u>	<u>267,632</u>	<u>266,254</u>	<u>(1,378)</u>
Total revenues	<u>9,429,590</u>	<u>9,429,590</u>	<u>9,606,364</u>	<u>176,774</u>
Expenditures:				
General government:				
Town commission	129,770	129,770	117,219	12,551
Town manager	293,300	298,200	296,039	2,161
Town clerk	225,340	225,340	222,576	2,764
Finance	273,615	273,615	265,223	8,392
Legal	188,000	188,000	153,328	34,672
Public buildings	221,700	237,407	205,117	32,290
Post office	113,275	116,675	114,396	2,279
Non-departmental	398,500	398,500	314,655	83,845
Total general government	<u>1,843,500</u>	<u>1,867,507</u>	<u>1,688,553</u>	<u>178,954</u>
Public safety:				
Police	1,886,975	1,886,975	1,843,474	43,501
Protective inspections	254,360	304,360	280,869	23,491
Ambulance service	12,000	12,000	12,000	
Fire rescue	2,961,886	2,961,886	2,955,728	6,158
Total public safety	<u>5,115,221</u>	<u>5,165,221</u>	<u>5,092,071</u>	<u>73,150</u>

(continued)

TOWN OF HIGHLAND BEACH, FLORIDA
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2012
(Continued)

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (continued)				
Culture and recreation	\$ 569,600	\$ 569,600	\$ 544,820	\$ 24,780
Sanitation	418,000	426,000	421,181	4,819
Contingency	200,000	125,993	78,400	47,593
Debt service:				
Principal	640,100	639,900	639,833	67
Interest	64,800	65,000	64,653	347
Total debt service	704,900	704,900	704,486	414
Total expenditures	8,851,221	8,859,221	8,529,511	329,710
Excess of revenues over (under) expenditures	578,369	570,369	1,076,853	506,484
Other financing sources (uses):				
Transfers out	(1,288,400)	(2,576,800)	(1,288,400)	1,288,400
Total other financing sources (uses)	\$ (1,288,400)	\$ (2,576,800)	\$ (1,288,400)	\$ 1,288,400
Net change in fund balances			(211,547)	
Fund balances, beginning of year			6,098,823	
Fund balances, end of year			\$ 5,887,276	

TOWN OF HIGHLAND BEACH, FLORIDA
Notes to the Budgetary Required Supplemental Information
September 30, 2012

NOTE 1. Budgets and Budgetary Accounting

Florida Statutes require all municipal governments to establish budgetary systems and approve balanced annual operating budgets. The Town Commission adopts an operating budget and appropriates funds for the General Fund, the Library Donation Special Revenue Fund, the Cultural Society Special Revenue Fund, and all Proprietary Funds. The procedures for establishing budgetary data are as follows:

- In July of each year, the Town Manager submits a proposed operating budget to the Commission for the next fiscal year commencing the following October 1st.
- In September, the Commission holds public meetings to obtain taxpayer comments.
- Upon completion of the public hearings and prior to October 1, a final operating budget is legally enacted through the passage of a resolution. Estimated beginning fund balances are considered in the budgetary process

Changes or amendments to the total budgeted expenditures of the Town or a department must be approved by the Commission. Changes within a department which do not affect department totals may be approved on the administrative level. Budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTE 2. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and control. Because appropriations expire at year end, even if encumbered, it is the Town's policy to reappropriate such amounts at the beginning of the next fiscal year.

NOTE 3. Excess of Expenditures Over Appropriations

No departments had expenditures in excess of appropriations for the fiscal year ended September 30, 2012.

TOWN OF HIGHLAND BEACH, FLORIDA
Required Supplemental Information
Schedule of Funding Progress
Other Postemployment Benefits
For the Year Ended September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as % of Covered Payroll
09/30/09	\$	\$ 339,134	\$ 339,134	0.0%	\$ 2,197,591	15.4%
09/30/12	\$	\$ 175,617	\$ 175,617	0.0%	\$ 1,942,955	9.0%

The schedule of funding progress presented above presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Town implemented GASB 45 during the fiscal year ended September 30, 2009, and elected to apply the statement prospectively. Consequently, there are no disclosures for prior years. The Town is required to have an actuarial valuation every three years. The next valuation is schedule for September 30, 2015. The Town has not contributed assets to the plan at this time.

TOWN OF HIGHLAND BEACH, FLORIDA
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2012

	Special Revenue Funds				Total Non-major Funds
	Open Space and Recreation Land	Library Donation	Cultural Society	Law Enforcement	
Assets:					
Cash and cash equivalents	\$ 188,051	\$ 5,778	\$ 1,375	\$ 6,771	\$ 201,975
Investments	1,823	56	106	65	2,050
Total assets	<u>\$ 189,874</u>	<u>\$ 5,834</u>	<u>\$ 1,481</u>	<u>\$ 6,836</u>	<u>\$ 204,025</u>
Liabilities and fund balance:					
Fund balance:					
Restricted for					
Law enforcement	\$	\$	\$	\$ 6,836	\$ 6,836
Library activities		5,834			5,834
Recreational land acquisition	189,874				189,874
Cultural activities			1,481		1,481
Total fund balance	<u>189,874</u>	<u>5,834</u>	<u>1,481</u>	<u>6,836</u>	<u>204,025</u>
Total liabilities and fund balance	<u>\$ 189,874</u>	<u>\$ 5,834</u>	<u>\$ 1,481</u>	<u>\$ 6,836</u>	<u>\$ 204,025</u>

TOWN OF HIGHLAND BEACH, FLORIDA
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended September 30, 2012

	Special Revenue Funds				Total Non-major Funds
	Open Space and Recreation Land	Library Donation	Cultural Society	Law Enforcement	
Revenues:					
Interest	\$ 345	\$ 12	\$ 2	\$ 12	\$ 371
Net increase in fair value of investments	489	15	29	17	550
Total revenues	<u>834</u>	<u>27</u>	<u>31</u>	<u>29</u>	<u>921</u>
Expenditures:					
Culture and recreation			297		297
Total expenditures			<u>297</u>		<u>297</u>
Net change in fund balances	834	27	(266)	29	624
Fund balance, beginning of year	<u>189,040</u>	<u>5,807</u>	<u>1,747</u>	<u>6,807</u>	<u>203,401</u>
Fund balance, end of year	<u>\$ 189,874</u>	<u>\$ 5,834</u>	<u>\$ 1,481</u>	<u>\$ 6,836</u>	<u>\$ 204,025</u>

TOWN OF HIGHLAND BEACH, FLORIDA
Library Donation Fund
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended September 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Contributions	\$ 1,000	\$	\$ (1,000)
Interest	50	12	(38)
Net decrease in fair value of investments	<u> </u>	<u>15</u>	<u>15</u>
 Total revenues	 <u>\$ 1,050</u>	 <u>\$ 27</u>	 <u>\$ (1,023)</u>
 Expenditures	 <u>\$</u>	 <u>\$</u>	 <u>\$</u>

TOWN OF HIGHLAND BEACH, FLORIDA
Cultural Society Fund
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended September 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Interest	\$ 25	\$ 2	\$ (23)
Net decrease in fair value of investments		<u>29</u>	<u>29</u>
Total revenues	<u>\$ 25</u>	<u>\$ 31</u>	<u>\$ 6</u>
Expenditures:			
Culture and recreation	<u>\$ 1,025</u>	<u>\$ 297</u>	<u>\$ 728</u>
Total expenditures	<u>\$ 1,025</u>	<u>\$ 297</u>	<u>\$ 728</u>

STATISTICAL SECTION

This part of the Town of Highland Beach's comprehensive annual financial report presents detailed unaudited information as a context for understanding what the information in the financial statement, note disclosures, and required supplementary information says about the Town's overall financial health.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Town of Highland Beach, Florida
Schedule 1
Net Assets by Component (Unaudited)
(Accrual Basis of Accounting)

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ (770,020)	\$ 1,745,513	\$ 2,840,713	\$ 3,187,681	\$ 2,736,193	\$ 3,891,288	\$ 4,055,665	\$ 4,105,395	\$ 4,721,472	\$ 4,272,876
Restricted		780,382	177,936	196,464	206,652	215,900	208,117	206,674	203,401	208,336
Unrestricted	1,474,158	(1,270,667)	(561,376)	(206,984)	2,804,943	3,099,905	4,125,914	4,648,565	3,996,161	4,533,261
Total governmental activities	\$ 704,138	\$ 1,255,228	\$ 2,457,273	\$ 3,177,161	\$ 5,747,788	\$ 7,207,093	\$ 8,389,696	\$ 8,960,634	\$ 8,921,034	\$ 9,014,473
Business type activities										
Invested in capital assets, net of related debt	\$ 6,579,413	\$ 5,994,294	\$ 5,415,861	\$ 5,152,365	\$ 4,806,874	\$ 4,643,383	\$ 4,440,519	\$ 4,824,750	\$ 4,109,700	\$ 3,983,977
Restricted		102,369						226,211	227,426	233,095
Unrestricted	(186,866)	923,425	629,199	1,092,036	1,385,963	730,965	1,321,947	1,288,498	2,370,880	2,614,779
Total business type activities	\$ 6,392,547	\$ 7,020,088	\$ 6,045,060	\$ 6,244,401	\$ 6,192,837	\$ 5,374,348	\$ 5,762,466	\$ 6,339,459	\$ 6,708,006	\$ 6,831,851
Primary Government										
Invested in capital assets, net of related debt	\$ 5,809,393	\$ 7,739,807	\$ 8,256,574	\$ 8,340,046	\$ 7,543,067	\$ 8,534,671	\$ 8,496,184	\$ 8,930,145	\$ 8,831,172	\$ 8,256,853
Restricted		882,751	177,936	196,464	206,652	215,900	208,117	432,885	430,827	441,431
Unrestricted	1,287,292	(347,242)	67,823	885,052	4,190,906	3,830,870	5,447,861	5,937,063	6,367,041	7,148,040
Total primary government	\$ 7,096,685	\$ 8,275,316	\$ 8,502,333	\$ 9,421,562	\$ 11,940,625	\$ 12,581,441	\$ 14,152,162	\$ 15,300,093	\$ 15,629,040	\$ 15,846,324

Town of Highland Beach, Florida
Schedule 2
Changes in Net Assets (Unaudited)
(Accrual Basis of Accounting)

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 1,549,650	\$ 1,618,870	\$ 1,726,541	\$ 2,337,885	\$ 1,963,868	\$ 2,082,101	\$ 1,985,394	\$ 1,742,170	\$ 1,704,445	\$ 1,656,544
Public Safety	3,501,890	3,944,556	4,142,712	4,386,918	4,676,540	5,224,278	4,994,823	5,058,750	5,207,887	5,152,662
Culture/recreation	236,146	203,610	206,779	364,037	499,442	512,999	586,308	607,773	559,744	524,797
Physical environment	288,883	348,965	377,751	369,965	403,190	437,217	452,133	437,106	530,279	572,668
Interest on long term debt	251,554	232,031	184,431	168,583	155,786	145,818	110,327	99,866	80,526	61,143
Total governmental activities	\$ 5,828,123	\$ 6,348,032	\$ 6,638,214	\$ 7,627,388	\$ 7,698,826	\$ 8,402,413	\$ 8,128,985	\$ 7,945,665	\$ 8,082,881	\$ 7,967,814
Business type activities:										
Water utility	1,259,564	1,269,157	2,313,852	2,392,210	2,594,317	2,800,840	2,961,803	2,870,516	2,946,428	2,884,123
Sewer utility	713,593	836,290	839,257	737,138	856,529	876,225	1,024,162	965,202	933,160	838,703
Interest on long term debt	50,046		330,982	351,393	304,552	427,622	420,614	379,477	415,749	448,746
Total business type activities	2,023,203	2,105,447	3,484,091	3,480,741	3,755,398	4,104,687	4,406,579	4,215,195	4,295,337	4,171,572
Total primary government expenses	\$ 7,851,326	\$ 8,453,479	\$ 10,122,305	\$ 11,108,129	\$ 11,454,224	\$ 12,507,100	\$ 12,535,564	\$ 12,160,860	\$ 12,378,218	\$ 12,139,386
Program Revenues										
Charges for Services- Governmental Activities										
General Government	59,417	50,829	51,137	50,983	71,754	70,861	54,539	56,688	62,767	60,880
Public Safety	472,472	462,355	463,069	443,549	453,299	463,487	261,729	294,618	333,943	412,314
Culture recreation	2,527	4,429	5,272	4,992	4,879	4,047	6,273	6,160	4,780	5,106
Sanitation	339,661	349,672	353,015	350,127	381,775	412,813	476,579	478,931	466,732	467,004
Total Charges for Services	\$ 874,077	\$ 867,285	\$ 872,493	\$ 849,651	\$ 911,707	\$ 951,208	\$ 799,120	\$ 836,397	\$ 868,222	\$ 945,304
Operating Grants and Contributions	46,622	79,078	6,334	4,500	10,575		7,605	1,600	13,016	13,134
Capital Grants and Contributions			300,000	200,000		75,436	184,387	7,316	5,000	-
Total governmental activities program revenues	\$ 920,699	\$ 946,363	\$ 1,178,827	\$ 1,054,151	\$ 922,282	\$ 1,026,644	\$ 991,112	\$ 845,313	\$ 886,238	\$ 958,438
Business type activities program revenue:										
Water utility	1,220,355	1,185,831	1,296,600	1,282,171	1,705,302	1,941,274	2,147,620	2,059,032	2,123,564	1,992,304
Sewer utility	809,041	824,727	839,337	844,200	847,096	842,837	851,892	982,696	1,033,147	1,002,973
Capital Grants and Contributions		300,000		3,000						
Total business type activities program revenues	2,029,396	2,310,558	2,135,937	2,129,371	2,552,398	2,784,111	2,999,512	3,041,728	3,156,711	2,995,277
Total primary government program revenue	\$ 2,950,095	\$ 3,256,921	\$ 3,314,764	\$ 3,183,522	\$ 3,474,680	\$ 3,810,755	\$ 3,990,624	\$ 3,887,041	\$ 4,042,949	\$ 3,953,715
Net (expense) revenue										
Governmental activities	(4,907,424)	(5,401,669)	(5,459,387)	(6,573,237)	(6,776,544)	(7,375,769)	(7,137,873)	(7,100,352)	(7,196,643)	(7,009,376)
Business type activities	6,193	205,111	(1,348,154)	(1,351,370)	(1,203,000)	(1,320,576)	(1,407,067)	(1,173,467)	(1,138,626)	(1,176,295)
Total primary government net expense	\$ (4,901,231)	\$ (5,196,558)	\$ (6,807,541)	\$ (7,924,607)	\$ (7,979,544)	\$ (8,696,345)	\$ (8,544,940)	\$ (8,273,819)	\$ (8,335,269)	\$ (8,185,671)
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Property taxes	\$ 4,660,858	\$ 5,242,428	\$ 5,976,900	\$ 7,227,968	\$ 8,901,807	\$ 8,553,333	\$ 7,938,812	\$ 7,999,103	\$ 7,338,543	\$ 7,285,358
Utility service taxes	572,035	600,177	641,671	701,028	732,989	781,749	824,927	775,264	723,808	688,278
Sales and use taxes	312,962	340,247	343,457	357,251	345,079	323,586	290,488	289,248	296,928	261,339
State revenue sharing	60,786	68,842	94,302	97,404	95,488	88,678	87,777	102,500	109,768	113,482
Investment earnings	70,990	65,970	120,171	221,860	287,194	167,790	109,958	57,242	42,230	34,136
Miscellaneous revenues	124,730	41,517	86,366	164,599	53,679	24,372	123,751	53,549	6,522	8,622
Gain (loss) on disposal of assets			18,000	50			1,500	-	-	-
Transfers	(143,581)	(406,422)	(619,435)	(1,477,035)	(1,069,065)	(1,104,435)	(1,056,737)	(1,605,416)	(1,360,956)	(1,288,400)
Total general revenues	\$ 5,658,780	\$ 5,952,759	\$ 6,661,432	\$ 7,293,125	\$ 9,347,171	\$ 8,835,073	\$ 8,320,476	\$ 7,671,490	\$ 7,156,843	\$ 7,102,815
Business type activities program revenue										
Investment earnings	\$ 17,992	\$ 10,150	\$ 28,559	\$ 70,343	\$ 77,393	\$ 24,731	\$ 16,342	\$ 9,641	\$ 10,091	\$ 7,761
Other miscellaneous revenues	80,000	5,858	87,483	1,747	4,979	2,920	(3,781)	9,477	2,214	3,979
Gain (loss) on disposal of assets			(362,351)	1,586			900	-	(356)	-
Transfers	143,581	406,422	619,435	1,477,035	1,069,065	1,104,435	1,056,737	1,605,416	1,360,956	1,288,400
Total business type activities program revenues	241,573	422,430	373,126	1,550,711	1,151,437	1,132,086	1,070,198	1,624,534	1,372,905	1,300,140
Total primary government	\$ 5,900,353	\$ 6,375,189	\$ 7,034,558	\$ 8,843,836	\$ 10,498,608	\$ 9,967,159	\$ 9,390,674	\$ 9,296,024	\$ 8,529,748	\$ 8,402,955
Changes in Net Assets										
Government activities	\$ 751,356	\$ 551,090	\$ 1,202,045	\$ 719,888	\$ 2,570,627	\$ 1,459,304	\$ 1,182,603	\$ 571,138	\$ (39,800)	\$ 93,439
Business type activities	247,766	627,541	(975,028)	199,341	(51,563)	(188,490)	(241,881)	576,993	368,547	123,845
Total primary government	\$ 999,122	\$ 1,178,631	\$ 227,017	\$ 919,229	\$ 2,519,064	\$ 1,270,814	\$ 940,722	\$ 1,148,131	\$ 328,747	\$ 217,284

Town of Highland Beach, Florida
Schedule 3
Fund Balances, Governmental Funds (Unaudited)
(Modified Accrual Basis of Accounting)

Fiscal Year Ended 9/30	2003	2004	2005
General Fund			
Reserved	\$ 10,097	\$ 5,287	\$ 7,329
Unreserved	1,535,940	1,522,937	2,168,951
<u>GASB 54 Reporting Fund Balance</u>			
Nonspendable	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total general fund	\$ 1,546,037	\$ 1,528,224	\$ 2,176,280
All Other Governmental Funds			
Reserved	\$ 769,145	\$ 834,473	\$ 177,936
<u>GASB 54 Reporting Fund Balance</u>			
Restricted	-	-	-
Total all other governmental funds	\$ 769,145	\$ 834,473	\$ 177,936

2006	2007	2008	2009	2010	2011	2012
\$ 188,670	\$ 199,727	\$ 244,903	\$ 221,095	\$ 44,898	\$ -	\$ -
2,142,908	4,079,285	4,905,265	5,822,211	6,327,935	-	-
-	-	-	-	-	8,020	104,653
-	-	-	-	-	2,797,500	2,081,643
-	-	-	-	-	3,293,303	3,696,669
<u>\$ 2,331,578</u>	<u>\$ 4,279,012</u>	<u>\$ 5,150,168</u>	<u>\$ 6,043,306</u>	<u>\$ 6,372,833</u>	<u>\$ 6,098,823</u>	<u>\$ 5,882,965</u>
\$ 196,464	\$ 206,652	\$ 215,900	\$ 208,117	\$ 206,874	\$ -	\$ -
-	-	-	-	-	203,401	208,336
<u>\$ 196,464</u>	<u>\$ 206,652</u>	<u>\$ 215,900</u>	<u>\$ 208,117</u>	<u>\$ 206,874</u>	<u>\$ 203,401</u>	<u>\$ 208,336</u>

Town of Highland Beach, Florida
Schedule 4
Changes in Fund Balances, Governmental Funds (Unaudited)
(Modified Accrual Basis of Accounting)

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007
Revenues					
Taxes	\$ 5,270,094	\$ 5,881,529	\$ 6,652,530	\$ 7,967,255	\$ 9,671,871
Licenses and permits	437,529	425,888	396,994	405,004	445,304
Intergovernmental	407,586	397,381	725,852	639,256	430,738
Charges for services	347,651	357,063	362,096	356,373	388,118
Fines and forfeitures	33,699	36,334	49,436	23,837	14,905
Impact fees	8,000	9,000	7,000	1,000	
Interest	70,990	65,971	120,171	221,860	287,194
Net decrease in fair value of investments					
Miscellaneous revenues	147,511	217,515	346,363	272,758	276,020
Total revenues	6,723,060	7,390,681	8,660,442	9,887,343	11,514,150
Expenditures					
General government	1,407,059	1,634,464	1,606,617	2,266,915	1,933,810
Public Safety	3,374,752	3,808,111	4,003,247	4,217,648	4,530,219
Culture/Recreation	174,163	148,615	178,501	251,043	331,850
Sanitation	279,459	337,051	318,065	328,209	361,924
Capital outlay	411,689	857,999	2,656,050	634,409	582,654
Debt service					
Principal	362,885	396,445	240,000	362,985	588,403
Interest	251,554	222,659	202,283	175,273	158,603
Total expenditures	6,261,561	7,405,344	9,204,763	8,236,482	8,487,463
Excess of revenues over (under) expenditures	461,499	(14,663)	(544,321)	1,650,861	3,026,687
Other Financing Sources (Uses)					
Loan Proceeds		468,600	5,360,068		
Transfers in	459,612	794,344	2,806,583	314,054	2,464
Transfers out	(603,193)	(1,200,766)	(3,426,018)	(1,791,089)	(1,071,529)
Payment to refunded bond escrow			(4,204,793)		
Total other financing sources (uses)	(143,581)	62,178	535,840	(1,477,035)	(1,069,065)
Net Change in fund balances	317,918	47,515	(8,481)	173,826	1,957,622
Fund balances - beginning, as restated	1,997,264	2,315,182	2,362,697	2,354,216	2,528,042
Fund balance - ending	\$ 2,315,182	\$ 2,362,697	\$ 2,354,216	\$ 2,528,042	\$ 4,485,664
Debt services (principal & interest) as a percentage of non-capital expenditures	10.50%	9.46%	6.75%	7.08%	9.45%

2008	2009	2010	2011	2012
\$ 8,869,061	\$ 8,304,641	\$ 8,349,714	\$ 7,666,791	\$ 7,593,593
955,718	742,493	741,511	750,713	809,022
470,174	530,054	366,110	391,226	358,103
418,218	479,888	484,117	477,960	476,145
13,978	19,603	18,923	18,395	19,832
198,144	109,958	57,242	32,268	17,511
(30,354)	(27,301)	29,148	9,962	16,625
187,810	321,915	287,315	311,395	316,454
11,082,749	10,481,251	10,334,079	9,658,710	9,607,285
2,056,825	1,880,794	1,786,346	1,771,183	1,735,593
5,141,800	4,787,035	4,923,985	5,088,694	5,092,071
364,961	414,559	426,016	513,386	484,848
398,871	416,728	401,783	364,942	421,181
396,819	309,980	150,917	121,233	91,629
597,856	607,756	618,331	629,143	639,833
140,778	122,307	103,163	83,736	64,653
9,097,910	8,539,159	8,410,541	8,572,317	8,529,808
1,984,839	1,942,092	1,923,538	1,086,393	1,077,477
(1,104,435)	(1,056,737)	(1,605,416)	(1,360,956)	(1,288,400)
(1,104,435)	(1,056,737)	(1,605,416)	(1,360,956)	(1,288,400)
880,404	885,355	318,122	(274,563)	(210,923)
4,485,664	5,366,068	6,251,423	6,579,707	6,302,224
\$ 5,366,068	\$ 6,251,423	\$ 6,569,545	\$ 6,305,144	\$ 6,091,301
8.49%	8.87%	8.74%	8.44%	8.35%

Town of Highland Beach, Florida
Schedule 5
Assessed Value and Actual Value of Taxable Property (Unaudited)

Fiscal Year Ended 9/30	Residential Property	Commercial Property	Personal Property	Total Taxable Assessed Value	Total Direct Tax Rate	Total Actual Just Value
2003	\$1,187,265,905	\$8,105,453	\$8,490,913	\$1,203,862,271	20.08	\$1,338,695,342
2004	1,337,767,321	10,500,000	8,332,533	1,356,599,854	19.92	1,542,246,322
2005	1,527,169,511	11,200,000	8,246,381	1,546,615,892	19.73	1,804,845,506
2006	1,854,650,291	11,200,099	9,337,202	1,875,187,592	19.34	2,213,968,392
2007	2,271,637,312	20,004,323	9,190,364	2,300,831,999	18.51	2,844,277,082
2008	2,213,255,555	16,600,099	9,085,847	2,238,941,501	17.42	2,682,469,538
2009	2,114,725,997	16,600,000	8,780,936	2,140,106,933	17.32	2,546,895,895
2010	1,906,562,451	16,000,000	9,497,923	1,932,060,374	19.31	2,231,562,060
2011	1,790,003,250	16,000,000	9,715,000	1,815,718,250	19.36	2,051,532,163
2012	1,707,337,791	15,040,000	9,669,683	1,732,047,474	19.86	1,939,540,909

Source: Palm Beach County Property Appraiser's Office

Town of Highland Beach, Florida
Schedule 6
Direct and Overlapping Property Tax Rates (Unaudited)
(Per \$1,000 of Assessed Value)

Fiscal Year	Highland Beach			Overlapping Rates (1)							Total
	General Fund	Debt Service Fund	Total Town Rate	Palm Beach County	Palm Beach County School Board	Children's Services Council	Palm Beach County Health Care District	South Florida Water Management District	FIND(2) And Everglades		
2003	3.70	0.30	4.00	4.81	8.78	0.62	1.13	0.60	0.14	20.08	
2004	3.50	0.50	4.00	4.79	8.57	0.69	1.13	0.60	0.14	19.92	
2005	3.55	0.45	4.00	4.77	8.43	0.69	1.10	0.60	0.14	19.73	
2006	3.59	0.41	4.00	4.72	8.11	0.69	1.08	0.60	0.14	19.34	
2007	3.58	0.42	4.00	4.48	7.87	0.62	0.97	0.60	0.14	18.68	
2008	3.52	0.43	3.95	3.98	7.35	0.58	0.89	0.53	0.12	17.40	
2009	3.40	0.45	3.85	3.97	7.25	0.60	1.00	0.53	0.12	17.32	
2010	3.35	0.92	4.27	4.56	7.98	0.69	1.15	0.62	0.04	19.31	
2011	3.25	0.94	4.19	5.00	8.15	0.75	1.15	0.00	0.12	19.36	
2012	3.41	0.93	4.34	4.99	8.18	0.75	1.13	0.37	0.10	19.86	

Source: Palm Beach County Property Appraiser's office.

(1) Overlapping rates are those of local and county governments that apply to property owners within the Town of Highland Beach

(2) Florida Inland Navigation District.

Town of Highland Beach, Florida
Schedule 7
Principal Property Tax Payers (Unaudited)
Current Year and Ten Years Ago

Fiscal Year 2012			Fiscal Year 2003		
Taxpayers	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayers	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Musa, Marc A	\$ 8,296,221	0.48%	HBYC, Inc	\$ 36,688,000	3.05%
Muller, Ralph P	7,570,098	0.44%	Omega Group of Highland Beach	20,775,000	1.73%
Toth, Tibor	7,534,477	0.44%	2365 South Ocean Blvd	9,078,801	0.75%
Kappel, James S	7,520,000	0.43%	Gordon, Jeffrey M.	8,993,783	0.75%
Kappel, Sarah A	7,520,000	0.43%	Muller, Ralph	7,878,893	0.65%
Florida Power & Light	7,066,596	0.41%	Chaifetz, Richard	6,942,946	0.58%
Ocean Salt LLC	6,970,500	0.40%	Knight, William	6,736,365	0.56%
Pross, Randy	6,795,351	0.39%	Barry, Rosemarie	6,310,804	0.52%
Gonzalez, Richard	5,572,705	0.32%	Loftin, Peter	6,127,214	0.51%
Tulin, Stanley	5,540,705	0.32%	Frazier, Gary	5,576,246	0.46%
Total	\$ 70,386,653	4.06%	Total	\$ 115,108,052	9.56%

Source: Palm Beach County Property Appraiser's Office.

Town of Highland Beach, Florida
Schedule 8
Property Tax Levies and Collections (Unaudited)
Last Ten Fiscal Years

Fiscal Year Ended 9/30	Taxes Levied for the Fiscal Year	Collected within the		Collections in Subsequent Years	Total Collections to Date	
		<u>Fiscal Year of the Levy</u> Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$4,815,437	\$4,652,659	96.62%	\$8,199	\$4,660,858	96.79%
2004	5,426,399	5,241,966	96.60%	562	5,242,528	96.61%
2005	6,186,464	5,974,234	96.57%	2,666	5,976,900	96.61%
2006	7,500,750	7,228,241	96.37%		7,228,241	96.37%
2007	9,203,328	8,921,067	96.93%	1,234	8,922,301	96.95%
2008	8,846,761	8,553,333	96.68%		8,553,333	96.68%
2009	8,239,412	7,938,812	96.35%		7,938,812	96.35%
2010	8,254,728	7,999,103	96.90%		7,999,103	96.90%
2011	7,539,269	7,338,543	97.34%		7,338,543	97.34%
2012	7,518,298	7,285,358	96.90%		7,285,358	96.90%

Source: Tax Collector, Palm Beach County.

Town of Highland Beach, Florida
Schedule 9
Ratios of Outstanding Debt by Type (Unaudited)

Fiscal Year Ended 9/30	Population ⁽¹⁾	Median Family Income	Governmental Activities				Business Type Activity			Total Primary Government	Percentage Personal Income	Per Capita
			General Obligation Bonds	Revenue Bonds	Lease Revenue Bonds	Promissory Notes	Revenue Bonds	Promissory Notes	Revolving Loan Fund			
2003	3,961	N/A	175,000	4,111,240	350,000		93,760	901,571	4,360,638	9,992,209	N/A	2,523
2004	4,019	N/A		4,013,465	240,000	\$ 468,600	91,535	3,585,350	7,514,163	15,913,113	N/A	3,959
2005	4,157	N/A				5,743,300		3,668,091	7,117,397	16,528,788	N/A	3,976
2006	4,157	N/A				5,380,314		655,872	10,101,701	16,137,887	N/A	3,882
2007	4,155	N/A				4,791,912		4,529,938	9,650,076	18,971,926	N/A	4,566
2008	4,164	N/A				4,194,055		4,697,307	9,185,402	18,076,764	N/A	4,341
2009	4,164	N/A				3,586,300		4,471,066	8,707,301	16,764,667	N/A	4,026
2010	3,989	N/A				2,967,969		4,171,986	11,207,287	18,347,242	N/A	4,599
2011	3,539	N/A				2,338,826		3,931,241	11,386,558	17,656,625	N/A	4,989
2012	3,539	N/A				1,698,993		3,755,525	10,717,770	16,172,288	N/A	4,570

Source: (1) Bureau of Economic & Business Research (BEBR).

Town of Highland Beach, Florida
Schedule 10
Ratios of General Bonded Debt Outstanding (Unaudited)

Fiscal Year Ended 9/30	Population(1)	Taxable Value(2)	General Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita
2003	3,961	\$1,203,859,271	\$5,437,209	0.45%	\$1,373
2004	4,019	1,356,599,854	8,267,150	0.61%	2,057
2005	4,157	1,546,615,892	9,384,001	0.61%	2,257
2006	4,157	1,875,187,592	8,987,303	0.48%	2,162
2007	4,155	2,300,831,999	8,333,002	0.36%	2,006
2008	4,164	2,238,941,501	7,959,302	0.36%	1,911
2009	4,164	2,141,822,291	7,088,868	0.33%	1,702
2010	3,989	1,932,060,374	16,220,765	0.84%	4,066
2011	3,539	1,815,718,250	16,026,132	0.88%	4,528
2012	3,539	1,732,047,474	14,903,429	0.86%	4,211

Source: (1) Bureau of Economic & Business Research (BEBR).
(2) Palm Beach County Property Appraiser's Office.

Town of Highland Beach, Florida
Schedule 11
Direct and Overlapping Governmental Activities Debt (Unaudited)

As of September 30, 2012

Governmental Unit	Net General Obligation Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Town direct debt:			
Town of Highland Beach	\$ 1,698,993	100.00%	<u>\$ 1,698,993</u>
Overlapping debt:			
Palm Beach School District	\$ 1,862,653,000		
Palm Beach County	1,009,974,309		
	<u>\$ 2,872,627,309</u>	1.43%	<u>\$ 41,078,571</u>
Total direct and overlapping debt:			<u>\$ 42,777,564</u>
Estimated population:			<u>3,539</u>
Direct and overlapping net debt per capita:			<u>\$ 12,087</u>

Source: Palm Beach County School District.
Town of Highland Beach.

Town of Highland Beach, Florida
Schedule 12
Legal Debt Margin Information (Unaudited)

The Town of Highland Beach has no legal debt margin.

Town of Highland Beach, Florida
Schedule 13
Pledged-Revenue Coverage (Unaudited)

Fiscal Year	Revenue Bonds Series 1995 (1)				1997 Lease Revenue Bond				
	Ended 9/30	Pledged Revenue	Debt Service		Coverage	Pledged Revenue	Debt Service		Coverage
			Principal	Interest			Principal	Interest	
1997	\$ 1,246,455	\$	\$ 228,638	5.45	\$ 381,759	\$ 100,000	\$ 21,817	3.13	
1998	745,639		228,638	3.26	397,497	80,000	45,886	3.16	
1999	416,518		228,638	1.82	409,634	85,000	41,797	3.23	
2000	735,047		228,638	3.21	419,378	90,000	37,449	3.29	
2001	989,581	90,000	228,638	3.11	472,904	95,000	32,831	3.70	
2002	712,024	95,000	224,768	2.23	409,634	100,000	23,681	3.31	
2003	438,793	95,000	220,588	1.39	572,035	100,000	17,572	4.87	
2004	263,766	100,000	216,313	0.83	600,177	110,000	13,667	4.85	
2005			147,611		641,671	240,000	9,353	5.16	

Fiscal Year	State Revolving Loan(s)				2005 Promissory Note				
	Ended 9/30	Pledged Revenue	Debt Service		Coverage	Pledged Revenue	Debt Service		Coverage
			Principal	Interest			Principal	Interest	
2004	\$ 406,422	\$	\$ 113,318	3.59	\$	\$	\$		
2005	1,005,473	396,766	220,625	1.63					
2006	1,073,105	390,696	282,475	1.59	562,171	328,646	115,548	1.27	
2007	1,087,143	451,625	286,798	1.47	568,421	346,120	98,074	1.28	
2008	1,117,162	464,674	273,750	1.51	568,363	355,789	88,406	1.28	
2009	1,108,490	478,102	260,322	1.50	587,353	366,323	77,871	1.32	
2010	1,176,815	491,917	246,507	1.59	571,254	376,836	67,358	1.29	
2011	1,193,275	506,133	232,291	1.62	557,064	379,121	55,169	1.28	
2012	7,285,358	669,455	320,215	7.36	508,331	398,957	45,237	1.14	

(1) Retired by advance funding in 2005.

Town of Highland Beach, Florida
Schedule 14
Demographic & Economic Information (Unaudited)

Fiscal Year Ended 9/30	Population(1)	Median Family Income(2)	Per Capita Income(2)	Average House Sale	School Enrollment(3)	Unemployment Rate(2)
2003	3,961	N/A	N/A	N/A	38	4.8%
2004	4,019	N/A	N/A	N/A	39	4.6%
2005	4,157	N/A	N/A	N/A	40	4.0%
2006	4,157	\$ 83,415	\$ 81,091	N/A	39	3.6%
2007	4,155	N/A	N/A	N/A	38	4.8%
2008	4,164	\$ 93,915	\$ 79,036	N/A	45	6.3%
2009	4,164	\$ 94,662	\$ 84,430	N/A	64	7.8%
2010	3,989	\$ 104,474	\$ 72,079	N/A	67	12.4%
2011	3,539	\$ 104,570	\$ 72,222	N/A	65	1.4%
2012	3,539	\$ 90,729	\$ 73,199	N/A	65	1.5%

Sources: (1) U.S. Census Bureau (American Fact Finder)
(2) 2007-2011 American Community Survey 5-Year Estimates
(3) Palm Beach County School District.

Schedule 15
Principal Employers - Palm Beach County (Unaudited)
Current Year and Ten Years Ago

2012			2003		
Employer	Employees	Percentage of Total County Employment	Employer	Employees	Percentage of Total County Employment
School Board	21,495	NA	School Board	18,677	NA
Palm Beach County	11,381	NA	Palm Beach County	9,000	NA
Tenet Healthcare Corp.	6,100	NA	Columbia Palm Beach Healthcare	4,000	NA
Florida Power and Light	3,632	NA	Tenant Healthcare Corp.	3,040	NA
G4S (Hdqtrs)	3,000	NA	Florida Power & Light	2,800	NA
Hospital Corp of America	2,714	NA	Boca Raton Resort & Club	2,380	NA
Florida Atlantic University	2,706	NA	Florida Crystals	2,000	NA
Bethesda Memorial Hospital	2,391	NA	The Breakers	1,800	NA
Office Depot (Hdqtrs)	2,250	NA	Bethesda Memorial Hospital	1,800	NA
Boca Raton Community Hospital	2,250	NA	Boca Raton Community Hospital	1,700	NA
Total	57,919	NA	Total	47,197	NA

Source: Business Development Board of Palm Beach County.

No information available for the Town of Highland Beach

Town of Highland Beach, Florida
Schedule 16
Full Time Equivalent Town Government Employees by Function/Program (Unaudited)
Last Ten Fiscal Years

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function/Program										
General Government										
Town Manager	1	2	2	2	2	2	2	2	2	2
Town Clerk	2	2	2	2	2	2	2	2	2	2
Finance	3	2	2	2	2	2	1	1	2	2
Maintenance	2	2	2	2	2	2	2	2	0	0
Post Office	1	1	1	1	1	1	1	1	1	1
Public Safety										
Building	3	3	3	3	3	3	1	1	1	1
Police	13	14	14	15	15	15	15	13	14	15
Cultural and Recreation										
Library	1	1	1	2	2	2	3	3	4	4
Physical Environment										
Utilities	8	9	10	9	9	9	9	9	9	9
Total	34	36	37	38	38	38	36	34	35	36

Source: Town of Highland Beach Finance Department.

Town of Highland Beach, Florida
Schedule 17
Operating Indicators by Function/Program (Unaudited)
Last Six Fiscal Years

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Function/Program</u>										
Public Safety										
Number of arrests by police officers	10	10	17	15	4	1	1	5	5	9
Number of traffic citations issued	761	1,420	1,099	494	338	319	570	363	1,067	479
Number of fire calls (1)	255	255	256	271	224	254	206	241	154	111
Number of EMS calls (1)	425	347	369	421	364	414	457	416	391	625
Number of code enforcement inspections	25	8	31	9	9	15	26	234	199	172
Number of building permits issued	1,140	1,232	1,095	1,575	1,491	1,105	976	1,045	1,409	1,778
Physical Environment										
Number of water and sewer active accounts (meters)	427	433	439	448	450	459	472	470	469	468
Number of water and sewer units served	4,290	4,292	4,298	4,304	4,313	4,318	4,311	4,322	4,322	4,322
Cultural & Recreation										
Number of library patrons	2,597	2,651	2,800	3,239	3,498	4,103	4,555	4,805	4,610	3,543
Number of items in collection	21,540	22,225	23,215	24,616	26,552	29,728	32,744	37,231	37,818	39,492
Number of community events presented	79	79	81	81	189	251	502	633	718	663

Note: Indicators are not available prior to fiscal year 2002.
Fire Department contracted through Delray Beach.

Sources: Town of Highland Beach, FL
(1) City of Delray Beach

Town of Highland Beach, Florida
Schedule 18
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Fiscal Year Ended 9/30</u>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Function/Program</u>										
Public Safety										
Fire Trucks	1	1	1	1	1	1	1	1	1	1
EMS Units	1	1	1	1	1	1	1	1	1	1
Police Officers Vehicles	6	6	8	8	7	9	9	7	7	6
Vehicles- Protective Inspections	2	2	2	2	2	2	0	0	0	0
Transportation										
Street (miles)	3	3	3	3	3	3	3	3	3	3
Physical Environment										
Vehicles-Public Works	5	5	5	5	5	5	5	5	5	5

Source: Town of Highland Beach, FL



NOWLEN, HOLT & MINER, P.A.

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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*

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FAX (561) 996-6248

The Honorable Mayor and Member of the Town Commission
Highland Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Highland Beach, Florida, as of and for the year ended September 30, 2012, which collectively comprise the Town of Highland Beach, Florida's basic financial statements and have issued our report thereon dated March 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Highland Beach, Florida in the accompanying Management Letter in Accordance with the Rules of the Auditor General dated March 4, 2013.

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

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
March 4, 2013



NOWLEN, HOLT & MINER, P.A.

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

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The Honorable Mayor and Members of the Town Commission
Town of Highland Beach, Florida

We have audited the financial statements of the Town of Highland Beach, Florida, as of and for the year ended September 30, 2012, and have issued our report thereon dated March 4, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports, which are dated March 4, 2013 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 in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports.

PRIOR YEAR COMMENTS

Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

There were no comments in the prior year that required corrective actions by the Town.

CURRENT YEAR COMMENTS

Investment of Public Funds

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

Recommendations to Improve Financial Management

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

Violations of Provisions of Contracts or Grant Agreements, Fraud, Illegal Acts, or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we noted the following item.

Finding 2012-1 Rate Covenant

Condition: For the fiscal year ended September 30, 2012, the Town did not collect sufficient pledged revenues to satisfy 125% of the bond service requirements. Pledged revenues were approximately \$47,000 less than required to meet the rate covenant.

Criteria: In accordance with the Promissory Note, Series 2005 covenants, pledged revenues should not be less than 125% of the scheduled principal and interest on the Note and on any parity debt. Pledged revenues consist of the half-cent sales tax and discretionary communications service tax proceeds.

Effect: Noncompliance with bond rate covenant.

Recommendation: We recommend that the Town discuss this issue with the lender and the Town's bond counsel to determine an appropriate course of action.

Management Response: Management discussed this issue with the Town's bond counsel and the lender, and no action was requested by the lender.

Matters Inconsequential to the Financial Statements

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

Oversight Unit and Component Units

Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Highland Beach, Florida is a municipal corporation originally incorporated in 1926 and reincorporated in 1947 pursuant to Special Act 24537, Laws of Florida 1947. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units related to the Town.

Consideration of Financial Emergency Criteria

Rules of the Auditor General require a statement be included as to whether or not the local 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 the Town of Highland Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Annual Financial Report

Rules of the Auditor General require that we determine whether the annual financial report for the Town of Highland Beach, Florida for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. As of the date of this report, the annual financial report has not been filed.

Financial Condition Assessment Procedures

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

Excess of Expenditures Over Appropriations

As indicated in Note 3 to the Budgetary Required Supplementary Information for the year ended September 30, 2012 there were no departments that had expenditures in excess of appropriations.

Single Audits

The Town expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2012. The Town was not required to have a federal single audit or a state single audit.

Response to Management Letter

We did not audit management's response to the Management Letter and express no opinion on it.

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and state awarding agencies, pass-through entities, management of the Town of Highland Beach, Florida, and the Town Commission and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
March 4, 2013